ESSEX 亿胜

# ESSEX BIO-TECHNOLOGY LIMITED
# 億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 1061)

# 2022
## ANNUAL REPORT

# PIONEERING GLOBAL REGENERATIVE SCIENCE & TECHNOLOGY

ESSEX 亿胜

# TOMORROW'S TODAY

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# CHAIRMAN'S STATEMENT

**Ngiam Mia Je Patrick**
*Chairman*

During the year under review, the financial results of Essex Bio-Technology Limited (the "Company", together with its subsidiaries, the "Group") have been negatively impacted, and ongoing clinical trial programmes have been delayed due to disruptions resulting from sporadic emergence and persistent spread of COVID-19 in most parts of 2022 and the ensuing lockdowns instituted under the "zero-COVID policy" in the People's Republic of China (the "PRC").

Despite yet another difficult year inflicted by the pandemic of COVID-19 on us all, the tenacity, drive and leadership in our DNA were able to deliver sustained stakeholder value.

## FINANCIAL PERFORMANCE

For the year ended 31 December 2022, the Group achieved a consolidated turnover of approximately HK$1,317.7 million, with a decrease of 19.5% as compared to approximately HK$1,637.7 million in 2021.

Correspondingly, the Group's profit decreased by 34.8% to approximately HK$225.4 million as compared to approximately HK$346.0 million in 2021. The Group's profit was weighed down by an impairment loss of approximately HK$25.8 million on goodwill arising from the acquisition of YesDok Pte Ltd and its wholly-owned subsidiary in 2021.

The decrease in turnover and profit is primarily attributable to the surge of COVID-19 cases particularly in the second half of 2022 in a number of provinces and municipalities in the PRC, which significantly disrupted the clinical operations of hospitals in the PRC and prevented non-emergency patients from visiting hospitals and outpatient clinics during 2022. As at the date of this report, the clinical operations of hospitals and outpatient clinics have progressively resumed to normalcy.

The Group's turnover is primarily made up of the ophthalmology segment ("Ophthalmology") and surgical (wound care and healing) segment ("Surgical"). The core products that are current growth drivers under each segment are:

1. Ophthalmology – Beifushu series (Beifushu eye drops, Beifushu eye gel and Beifushu unit-dose eye drops), Tobramycin Eye Drops, Levofloxacin Eye Drops, Sodium Hyaluronate Eye Drops and 適麗順® (Iodized Lecithin Capsules*); and

2. Surgical (wound care and healing) – Beifuji series (Beifuji spray, Beifuji lyophilised powder and Beifuxin gel), Carisolv® dental caries removal gel, 伢典醫生 (Dr. YaDian) mouth wash and 伊血安顆粒 (Yi Xue An Granules*).

The sectoral turnover of Ophthalmology and Surgical is approximately 42.0% and 58.0% of the Group's turnover, respectively. The combined turnover of the Group's flagship biologics, Beifushu series and Beifuji series (the basic fibroblast growth factor (bFGF) based biologic drugs), represented about 86.4% of the Group's total turnover, of which Beifushu series and Beifuji series accounted for 29.3% and 57.1% of the Group's turnover, respectively. The remaining 13.6% of the Group's turnover is mainly contributed by sales of Tobramycin Eye Drops, Levofloxacin Eye Drops, Sodium Hyaluronate Eye Drops, 適麗順® (Iodized Lecithin Capsules*), Carisolv® dental caries removal gel, 伢典醫生 (Dr. YaDian) mouth wash and 伊血安顆粒 (Yi Xue An Granules*), collectively.

Ophthalmology contributed approximately HK$553.6 million to the Group's turnover for the year ended 31 December 2022, representing a decrease of 17.8% as compared to 2021. Surgical recorded a total turnover of approximately HK$764.1 million for the year ended 31 December 2022, representing a decrease of 20.8% as compared to 2021. The decrease was attributable to the aforementioned impact of COVID-19 outbreak in the PRC.

As at 31 December 2022, the Group had cash and cash equivalents of approximately HK$543.5 million (2021: approximately HK$671.3 million).

## SIGNIFICANT BUSINESS DEVELOPMENT ACTIVITIES

We are committed to pragmatically investing in new products and technologies to strengthen the Group's product and research and development ("R&D") pipeline as near to mid-term growth driver in ophthalmology and long-term plan for new therapeutics in oncology. Major investments in ophthalmic products that are currently in an advanced stage of clinical development are outlined as follows:

### *Investments in Ophthalmology*

In 2018, the Group entered into a co-development agreement with Mitotech S.A. ("Mitotech") and Mitotech LLC for the United States Food and Drug Administration (the "US FDA") phase 3 clinical trial of an ophthalmic solution containing SkQ1 for dry eye disease. As disclosed in the announcement of the Company dated 24 February 2021, positive outcome was achieved during second phase 3 clinical trial (VISTA-2). The clinical trial study repeated statistically significant positive results on key predefined secondary end-point (Central Corneal Fluorescein Staining). The board of directors of the Company (the "Board") is enthusiastic about the read-out of clearing of central staining of the cornea (defined as zero staining in central cornea), which reveals the potential of SkQ1 in addressing oxidative stress in dry eye diseases. Following the positive trial outcome of VISTA-2, Mitotech planned a pivotal trial (VISTA-3), which should have commenced after Mitotech's management team was satisfied by their assessment that there would be no potential disruption to trial centres and patient recruitment amidst the ongoing COVID-19 pandemic.

In order to provide the Group with flexibility and independence in the continuing development of the US FDA VISTA programme in the field of dry eye disease and allow the Group to explore further the development of other ophthalmic products for other ophthalmic indications to meet the clinical and commercial needs of the Global (as defined below) market, on 13 October 2022, the Group successfully secured (i) a patent assignment deed (the "Patent Assignment Deed"); and (ii) a patent and know-how licence agreement (the "Patent and Know-how Licence Agreement", together with the Patent Assignment Deed, the "Agreements") relating to SkQ1 in the field of ophthalmology from Mitotech.

Pursuant to the Patent Assignment Deed, Mitotech agreed to assign to the Group all the rights of a list of inventions and patents relating to SkQ1 in the field of ophthalmology and all ophthalmic indications.

Pursuant to the Patent and Know-how Licence Agreement, Mitotech agreed to grant the Group an exclusive, transferable and irrevocable Global licence to use a list of patents owned by Mitotech relating to SkQ1 to develop, manufacture, sell and supply any therapeutic products or therapies applied to the eye and its adnexa (the "Products"), including the full global (excluding Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia) ("Global") right to apply for and obtain patents, to apply for and obtain Global regulatory approval for clinical trials, and to obtain marketing authorisation in relation to the Products.

Following the acquisition of the intellectual property rights relating to SkQ1 on 13 October 2022, the Group's priority is to complete the transfer of chemistry, manufacturing and controls (CMC), know-how and intellectual property rights relating to SkQ1 from Mitotech. Concurrently, the Group is re-establishing the VISTA programme with regulators for mitigating any identifiable risks before continuing with the clinical trial. The aforementioned tasks will inevitably be time-consuming due to external factors and technical challenges involved. The Board will keep shareholders and investors informed as and when appropriate about the development status.

In 2020, the Group entered into a co-development and exclusive license agreement (the "Co-Development License Agreement") with Shanghai Henlius Biotech, Inc. ("Henlius") to co-develop a pharmaceutical product that contains an anti-vascular endothelial growth factor ("anti-VEGF") as a drug substance (the "Anti-VEGF Licensed Product"), which is intended for the treatment of exudative (wet) age-related macular degeneration ("wet-AMD"). As at the date of this report, the recombinant anti-VEGF humanised monoclonal antibody injection HLX04-O ("HLX04-O") for the treatment of wet-AMD has been approved to commence the phase 3 clinical trial in Australia, the United States, Singapore, Russia, Serbia and European Union countries such as Hungary, Spain, Latvia, the Czech Republic and Poland. Also, the first patient has been dosed in a phase 3 clinical study for HLX04-O for the treatment of wet-AMD in the PRC, Latvia, Australia and the United States.

On 22 February 2023, the Group entered into an amendment agreement with Henlius to amend certain terms of the Co-Development License Agreement, which include payments for regulatory and commercial sales milestones and development costs in respect of the Anti-VEGF Licensed Product. Please refer to the announcement of the Company dated 22 February 2023 and the annual results announcement of the Company dated 8 March 2023 for details.

## MARKET DEVELOPMENT

Over the years, the Group has been relentlessly investing in establishing and strengthening its market access capability. As at 31 December 2022, the Group maintains a network of 43 regional sales offices in the PRC and a total number of about 1,240 sales and marketing representatives, out of which 65% are full-time employees and 35% are on contract basis or from appointed agents. The Group expanded its presence in Singapore in 2020 as a base for market access expansion into Southeast Asian countries.

For achieving a sustainable traction on growth for currently marketed products as well as for near-term to mid-term new products being commercialised, the Group initiated investments to improve its competitiveness and widen its customer base under the following plans:

- investing in clinical observation programmes for affirming additional clinical indications of its commercialised products;
- reaching out to market in lower-tier cities in the PRC;
- cultivating pharmaceutical stores, where possible, as a complementary sales channel; and
- building an on-line platform for medical consultation and e-prescription for patients with chronic diseases under its healthtech initiative.

During the year under review, the Group's therapeutic products are being prescribed in more than 10,900 hospitals and medical providers, coupled with approximately 2,130 pharmaceutical stores, which are widely located in the major cities, provinces and county cities in the PRC.

# 43 REGIONAL SALES OFFICES


Harbin
Jilin
Shenyang
Dalian
Datong
Beijing
Tianjin
Yantai
Qingdao
Taiyuan
Jinan
Northern Henan
Lanzhou
Shaanxi
Henan
Xuzhou
Nanjing
Wuxi
Anhui
Shanghai
Zhejiang
Hubei
Jiujiang
Northern Hunan
Nanchang
Changsha
Southern Hunan
Guizhou
Ganzhou
Dongguan
Meizhou
Baise
Liuzhou
Guangzhou
Western Guangdong
Foshan
Shantou
Huizhou
Nanning
Shenzhen
Zhuhai
Hainan

## RESEARCH AND DEVELOPMENT

The R&D's vision is emphasising the dedication to science and innovation, with a mission to develop therapeutics that would meet unmet clinical and/or commercial needs. The Group kick-started a 5-year development plan from 2021 to further strengthen its R&D capability and its position in ophthalmology.

The Group's key R&D initiatives comprise of growth factor, antibody (i.e. mAb, bsAb, sdAb, scFv, ADC/FDC, etc.), drug formulation know-how and Blow-Fill-Seal ("BFS") platform. Growth factor, antibody and drug formulation know-how are used for the development of therapeutic drugs in ophthalmology, surgical (wound care and healing) and oncology, whereas BFS platform is a state-of-the-art manufacturing facility for producing preservative-free unit-dose drugs, in particular for ophthalmic drugs.

As at the date of this report, there are 16 R&D programmes in the pre-clinical to clinical stage, out of which 4 ophthalmology programmes (inclusive of a new addition of EB11-21148P during the year under review) are in clinical stage. The 4 ophthalmology programmes listed below are targeted as mid-term growth driver.

1. EB11-18136P: SkQ1 eye drops, second phase 3 clinical trial (US FDA) (VISTA-2) topline data released on 24 February 2021

2. EB11-15120P: Azithromycin eye drops, ongoing review by external key opinion leaders (National Medical Products Administration ("NMPA") in the PRC)

3. EB12-20145P: Bevacizumab intravitreal injection for wet-AMD, phase 3 clinical trial (US FDA, European Medicines Agency, Therapeutic Goods Administration and NMPA in the PRC)

4. EB11-21148P: Cyclosporin eye drops, phase 2 clinical trial (NMPA in the PRC)

As at the date of this report, the Group has obtained a total of 69 patent certificates or authorisation letters, which include 50 發明專利 (invention patents), 14 實用新型專利 (utility model patents) and 5 外觀專利 (design patents).

The Group currently has diversified its R&D resources to multiple research sites in Zhuhai (PRC), Boston (United States), London (United Kingdom) and Singapore which support not only our pursuit of new therapeutics but also our acquisition of global talent.

## PROSPECTS

COVID-19 remains a major concern in 2023 globally. We continue to monitor the situation and will take appropriate actions to overcome any unforeseen challenges. Barring unforeseen circumstances, the Group remains focused on executing its plans and delivering progressive results.

## DIVIDEND

To reward our valued shareholders, the Board is pleased to propose a final dividend of HK$0.025 (2021: HK$0.055) per ordinary share to be approved at the upcoming annual general meeting of the Company. Together with the interim dividend of HK$0.04 per ordinary share which was paid on 21 September 2022, the total dividend for 2022 would be HK$0.065 (2021: HK$0.095) per ordinary share.

## APPRECIATION

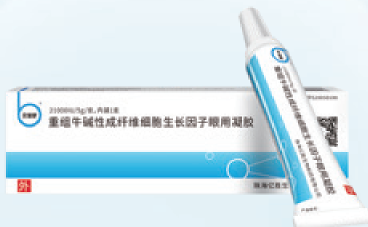
I would like to take this opportunity to express my sincere gratitude to all stakeholders, business associates and valued customers for the trust, support and cooperation accorded to us, and each and every member of the Group for their relentless efforts rendered in shaping the Group into being a progressive and promising pharmaceutical player.

**Ngiam Mia Je Patrick**
*Chairman*

Hong Kong
8 March 2023

* For identification purpose only

# BUSINESS REVIEW



Beifushu Eye Gel


Unit-dose
Beifushu Eye Drops


Beifushu Eye Drops


Beifuji Spray


Beifuxin Gel


Beifuji Lyophilised
Powder


Unit-dose
Tobramycin Eye Drops


Unit-dose
Sodium Hyaluronate
Eye Drops


Unit-dose Moxifloxacin
Hydrochloride
Eye Drops


Unit-dose
Levofloxacin Eye Drops


適麗順®
(Iodized Lecithin Capsules*)


Carisolv®
Dental Caries Removal Gel


Dr. YaDian Mouth Wash

# BUSINESS REVIEW

The vision of Essex Bio-Technology Limited (the "Company", together with its subsidiaries, the "Group") is to be a great and socially responsible corporation. Strategically, the Group develops, manufactures and commercialises genetically engineered therapeutic recombinant bovine basic fibroblast growth factor ("rb-bFGF"), with established mechanism of action in cellular proliferation, differentiation and migration.

The Group's turnover is primarily made up of the segments of Ophthalmology and Surgical (wound care and healing) covering dermatology, stomatology, obstetrics and gynaecology; while pursuing new therapeutics in oncology, orthopaedics and neurology through the Group's strategic investments.

Currently the Group has six commercialised biologics (collectively referred to as the "bFGF Series") that are marketed and sold in the People's Republic of China (the "PRC"). The bFGF Series include Beifushu eye drops, Beifushu eye gel and Beifushu unit-dose eye drops for treatment of ocular wounds, Beifuji spray, Beifuji lyophilised powder and Beifuxin gel for treatment of surface wounds. The bFGF Series are developed and manufactured by the Group, three of which were approved by 國家藥品監督管理局 (National Medical Products Administration) as Category I drugs and four of which are on the list of the National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance issued by the National Healthcare Security Administration and the Ministry of Human Resources and Social Security of the PRC. Collectively, the combined turnover of the bFGF Series represented about 86.4% of the Group's total turnover for the year under review.

Apart from the bFGF Series, the Group has a portfolio of commercialised preservative-free unit-dose eye drops, namely Tobramycin, Levofloxacin, Sodium Hyaluronate and Moxifloxacin Hydrochloride Eye Drops.

On 8 March 2022, the acquisition of intellectual property rights relating to technologies and process of product research and development ("R&D"), production, and right of Marketing Authorisation Holder of 適麗順® (Iodized Lecithin Capsules*) was completed and 適麗順® (Iodized Lecithin Capsules*) has become one of the Group's core products since then.

In addition, the Group has 2 oral care products, namely Carisolv® dental caries removal gel and 伢典醫生 (Dr. YaDian) mouth wash.

Leveraging its established market access capability, the Group undertakes the promotion and selling of a range of products and medical devices that are to complement the Group's therapeutics business of Ophthalmology and Surgical, including 伊血安顆粒 (Yi Xue An Granules*), Soft Hydrophilic Contact Lens, Ultrasound Cycloplasty (UCP), Foldable Capsular Vitreous Body, Portable Ultraviolet Phototherapy Devices, PELNAC™ collagen-based artificial dermis and other medical devices for myopia control and prevention such as eye-protection lamp and Seewant defocus customised glasses.

On the building of mid-term and long-term growth drivers, the Group maintains a pipeline of multi-project in R&D at various stages of clinical programmes, which cover a handful of unit-dose ophthalmic products and biologics in growth factors and antibody.

## SIGNIFICANT BUSINESS DEVELOPMENT ACTIVITIES

We are committed to pragmatically investing in new products and technologies to strengthen the Group's product and R&D pipeline as near to mid-term growth driver in ophthalmology and long-term plan for new therapeutics in oncology. Major investments in ophthalmic products that are currently in an advanced stage of clinical development are outlined as follows:

### *Investments in Ophthalmology*

In 2018, the Group entered into a co-development agreement with Mitotech S.A. ("Mitotech") and Mitotech LLC for the United States Food and Drug Administration (the "US FDA") phase 3 clinical trial of an ophthalmic solution containing SkQ1 for dry eye disease (the "SkQ1 Product"). Mitotech is a clinical-stage Luxembourg-based biotechnology company developing novel drugs for the treatment of predominantly age-related disorders. As disclosed in the announcement of the Company dated 24 February 2021, positive outcome was achieved during second phase 3 clinical trial (VISTA-2). The clinical trial study repeated statistically significant positive results on key predefined secondary end-point (Central Corneal Fluorescein Staining). The board of directors of the Company (the "Board") is enthusiastic about the read-out of clearing of central staining of the cornea (defined as zero staining in central cornea), which reveals the potential of SkQ1 in addressing oxidative stress in dry eye diseases. Following the positive trial outcome of VISTA-2, Mitotech planned a pivotal (VISTA-3), which should have commenced after Mitotech's management team was satisfied by their assessment that there would be no potential disruption to trial centres and patient recruitment amidst the ongoing COVID-19 pandemic.

In order to provide the Group with flexibility and independence in the continuing development of the US FDA VISTA programme in the field of dry eye disease and allow the Group to explore further the development of other ophthalmic products for other ophthalmic indications to meet the clinical and commercial needs of the Global (as defined below) market, on 13 October 2022, the Group successfully secured (i) a patent assignment deed (the "Patent Assignment Deed"); and (ii) a patent and know-how licence agreement (the "Patent and Know-how Licence Agreement", together with the Patent Assignment Deed, the "Agreements") relating to SkQ1 in the field of ophthalmology from Mitotech.

Pursuant to the Patent Assignment Deed, Mitotech agreed to assign to the Group all the rights of a list of inventions and patents relating to SkQ1 in the field of ophthalmology and all ophthalmic indications.

Pursuant to the Patent and Know-how Licence Agreement, Mitotech agreed to grant the Group an exclusive, transferable and irrevocable Global licence to use a list of patents owned by Mitotech relating to SkQ1 to develop, manufacture, sell and supply any therapeutic products or therapies applied to the eye and its adnexa (the "Products"), including the full global (excluding Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia) ("Global") right to apply for and obtain patents, to apply for and obtain Global regulatory approval for clinical trials, and to obtain marketing authorisation in relation to the Products.

Following the acquisition of the intellectual property rights relating to SkQ1 on 13 October 2022, the Group's priority is to complete the transfer of chemistry, manufacturing and controls (CMC), know-how and intellectual property rights relating to SkQ1 from Mitotech. Concurrently, the Group is re-establishing the VISTA programme with regulators for mitigating any identifiable risks before continuing with the clinical trial. The aforementioned tasks will inevitably be time-consuming due to external factors and technical challenges involved. The Board will keep shareholders and investors informed as and when appropriate about the development status.

Total actual investment cost of approximately HK$354.1 million for the clinical development of the SkQ1 Product with Mitotech is presented as "Acquired Intangible Assets" under the Group's consolidated financial statements as at 31 December 2022. The investment cost represented 13.1% of the Group's total assets as at 31 December 2022. According to Frost & Sullivan, the estimated number of patients with moderate-to-severe dry eye disease was around 119.7 million in the PRC in 2020. It is expected that the size of the potential market of the SkQ1 Product will be significant.

In 2020, the Group entered into a co-development and exclusive license agreement (the "Co-Development License Agreement") with Shanghai Henlius Biotech, Inc. ("Henlius") to co-develop a pharmaceutical product that contains an anti-vascular endothelial growth factor ("anti-VEGF") as a drug substance (the "Anti-VEGF Licensed Product"), which is intended for the treatment of exudative (wet) age-related macular degeneration ("wet-AMD"). As at the date of this report, the recombinant anti-VEGF humanised monoclonal antibody injection HLX04-O ("HLX04-O") for the treatment of wet-AMD has been approved to commence the phase 3 clinical trial in Australia, the United States, Singapore, Russia, Serbia and European Union countries such as Hungary, Spain, Latvia, the Czech Republic and Poland. Also, the first patient has been dosed in a phase 3 clinical study for HLX04-O for the treatment of wet-AMD in the PRC, Latvia, Australia and the United States.

On 22 February 2023, the Group entered into an amendment agreement with Henlius to amend certain terms of the Co-Development License Agreement, which include payments for regulatory and commercial sales milestones and development costs in respect of the Anti-VEGF Licensed Product. Please refer to the announcement of the Company dated 22 February 2023 and the annual results announcement of the Company dated 8 March 2023 for details.

Henlius is the holding company of a group principally engaged in (i) the research and development, production and sale of monoclonal antibody (mAb) drugs and the provision of related technical services (except for the development and application of human stem cells, genetic diagnosis and therapy technology); and (ii) the transfer of its own technology and provision of the related technology consultation services.

Total maximum commitment in relation to the co-development of the Anti-VEGF Licensed Product with Henlius is US$67.0 million (equivalent to approximately HK$523.1 million). Total actual investment cost of approximately HK$215.3 million is presented as "Acquired Intangible Assets" under the Group's consolidated financial statements as at 31 December 2022. The investment cost represented 7.9% of the Group's total assets as at 31 December 2022. The Anti-VEGF Licensed Product can be used for treating wet-AMD, diabetic macular edema, macular edema caused by retinal vein occlusion and myopic choroidal neovascularisation. According to Frost & Sullivan, the estimated number of patients with these 4 categories of disease was around 15.8 million in the PRC in 2020. Assuming each patient applies 4 doses in the first year of treatment and 2 to 3 doses in subsequent years, it is expected that the size of the potential market of the Anti-VEGF Licensed Product will be significant.

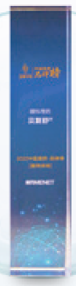
Apart from the investments in the SkQ1 Product and the Anti-VEGF Licensed Product, as at 31 December 2022 and the date of this report, each of the investments made and held by the Group represented less than 5% of the Group's total assets.

## HONOURS AND AWARDS OBTAINED IN 2022

珠海億勝生物製藥有限公司 (Zhuhai Essex Bio-Pharmaceutical Company Limited*), a wholly-owned subsidiary of the Company, has been recognised as one of the 2021年度珠海市醫藥健康製造業十強企業 (2021 top 10 pharmaceutical and health manufacturing companies in Zhuhai*). It has also been recognised as one of the 2021年度TOP100中國化藥企業 (2021 top 100 chemical pharmaceutical companies in the PRC*).

The Group's Beifushu has been awarded as one of the Chinese reputable medicine brands in four consecutive years. This is a testament to the recognition by the industry for the efficacy and quality of our flagship biologic drug.

2021 top 100 chemical pharmaceutical companies in the PRC

Beifushu has been awarded as one of the 2022 Chinese reputable medicine brands

The Company has been included in 2022 Forbes Asia's Best Under A Billion list, which is a testimony to the Group's achievements over the past few years. Forbes Asia's Best Under A Billion list spotlights 200 top-performing publicly listed small and mid-sized companies in the Asia-Pacific region with annual sales under US$1 billion. The Company was further conferred with 中國卓越IR—最佳股東關係獎 and 最佳ESG獎 (China Excellent IR – The Best Shareholder Relationship Award* and The Best ESG Award*).

## MARKET DEVELOPMENT

Over the years, the Group has been relentlessly investing in establishing and strengthening its market access capability. As at 31 December 2022, the Group maintains a network of 43 regional sales offices in the PRC and a total number of about 1,240 sales and marketing representatives, out of which 65% are full-time employees and 35% are on contract basis or from appointed agents. The Group expanded its presence in Singapore in 2020 as a base for market access expansion into Southeast Asian countries.

For achieving a sustainable traction on growth for currently marketed products as well as for near-term to mid-term new products being commercialised, the Group initiated investments to improve its competitiveness and widen its customers base under the following plans:

- investing in clinical observation programmes for affirming additional clinical indications of its commercialised products;
- reaching out to market in lower-tier cities in the PRC;
- cultivating pharmaceutical stores, where possible, as a complementary sales channel; and
- building an on-line platform for medical consultation and e-prescription for patients with chronic diseases under its healthtech initiative.

During the year under review, the Group's therapeutic products are being prescribed in more than 10,900 hospitals and medical providers, coupled with approximately 2,130 pharmaceutical stores, which are widely located in the major cities, provinces and county cities in the PRC.

## RESEARCH AND DEVELOPMENT

The Group renewed its R&D's vision in 2020, emphasising the dedication to science and innovation, with a mission to develop therapeutics that would meet unmet clinical and/or commercial needs. The Group concurrently kick-started a 5-year (2021 to 2025) R&D's development plan to further strengthen its R&D capability and its position in ophthalmology.

The Group's key R&D initiatives comprise of growth factor, antibody (i.e. mAb, bsAb, sdAb, scFv, ADC/FDC, etc.), drug formulation know-how and Blow-Fill-Seal ("BFS") platform. Growth factor, antibody and drug formulation know-how are used for the development of therapeutic drugs in ophthalmology, surgical (wound care and healing) and oncology, whereas BFS platform is a state-of-the-art manufacturing facility for producing preservative-free unit-dose drugs, in particular for ophthalmic drugs.

One of the Group's technology platforms is built on recombinant proteins, in particular, the basic fibroblast growth factor (bFGF). The Group has been able to capitalise on its biologic facility, built with its proprietary technique and know-how, delivering high-quality bFGF Series of biologics in the Ophthalmology and Surgical business segments that constituted the Group's primary current growth driver. Strengthening the Group's biologics-based R&D, the strategic alliances forged with Antikor Biopharma Limited and Henlius are in furtherance of our R&D plans for biologics in oncology and in ophthalmology for wet-AMD, diabetic macular edema, macular edema caused by retinal vein occlusion and myopic choroidal neovascularisation for mid-term to long-term growth driver.

The establishment of the BFS platform formed part of the Group's core competency to develop and produce a series of preservative-free unit-dose drugs. As at 31 December 2022, the Group has 5 commercialised preservative-free unit-dose eye drops in the product pipeline. A handful of preservative-free unit-dose ophthalmic drugs are under development with targeted commercialisation within the next 2 to 5 years.

As at the date of this report, there are 16 R&D programmes in the pre-clinical to clinical stage, out of which 4 ophthalmology programmes (inclusive of a new addition of EB11-21148P during the year under review) are in clinical stage. The 4 ophthalmology programmes listed below are targeted as mid-term growth driver.

1. EB11-18136P: SkQ1 eye drops, second phase 3 clinical trial (US FDA) (VISTA-2) topline data released on 24 February 2021

2. EB11-15120P: Azithromycin eye drops, ongoing review by external key opinion leaders (National Medical Products Administration ("NMPA") in the PRC)

3. EB12-20145P: Bevacizumab intravitreal injection for wet-AMD, phase 3 clinical trial (US FDA, European Medicines Agency, Therapeutic Goods Administration and NMPA in the PRC)

4. EB11-21148P: Cyclosporin eye drops, phase 2 clinical trial (NMPA in the PRC)

As at the date of this report, the Group has obtained a total of 69 patent certificates or authorisation letters, which include 50 發明專利 (invention patents), 14 實用新型專利 (utility model patents) and 5 外觀專利 (design patents).

The Group currently has diversified its R&D resources to multiple research sites in Zhuhai (PRC), Boston (United States), London (United Kingdom) and Singapore which support not only our pursuit of new therapeutics but also our acquisition of global talent.

## PRODUCTION CAPABILITY

The Group's factory in Zhuhai is fully equipped with production plants for the production of rb-bFGF as active pharmaceutical substance for the Group's flagship biologic formulations. The state-of-the-art BFS production plants in the factory enables the production of preservative-free unit-dose drugs, including Beifushu unit-dose eye drops.

## CONSTRUCTION OF THE SECOND FACTORY IN THE PRC

For the near-term expansion of the Group, a piece of land of about 15,000 square metres located at 珠海高新區科技創新海岸 (Zhuhai Hi-Tech Industrial Park*) was acquired in 2018. The land is within walking distance from the Group's existing factory. The plan is to construct the Group's second factory with a gross floor area (GFA) of about 58,000 square metres to house the Group's R&D centre, additional manufacturing facility, administrative office and staff hostel. Construction work of the second factory has started on 1 January 2020 and planned to complete by 2023, but is currently subject to timely resolution with the main contractor as explained further below.

The overall construction work of the second factory was substantially completed as at the date of this report. However, in November 2021, the main contractor has unilaterally suspended the construction work without a valid reason, which caused undue delay to the completion of the construction. In August 2022, the Group initiated legal proceedings against the main contractor seeking compensation for the breach of contract, and planned to appoint a new main contractor to complete the construction. The Group obtained a court order on 26 August 2022 to freeze the assets of the main contractor amounting to approximately HK$42.9 million, and a bank account of the main contractor with balance of approximately HK$27.7 million as at 25 August 2022 was frozen.

In October 2022, the main contractor initiated counter legal proceedings against one of the subsidiaries of the Company seeking compensation for the disputed construction progress payments and obtained a court order to freeze one of the bank accounts of such subsidiary of which bank balance of approximately HK$52.9 million as at 31 December 2022 was affected.

Two hearings were held in November 2022 and January 2023 at Zhuhai Xiangzhou Court of the PRC, respectively and pending an evaluation of the construction progress by a third-party appraiser, no judgement by the court has been delivered as at the date of this report.

The Board will closely monitor the situation and make appropriate announcement(s) when necessary.

* For identification purpose only

# FINANCIAL HIGHLIGHTS

| | Presentation Currency in HK$ | | | Comparison Results in RMB | | |
|---|---|---|---|---|---|---|
| | **2022 HK$'000** | 2021 HK$'000 | Increase/ (decrease) % | **2022 RMB'000** | 2021 RMB'000 | Increase/ (decrease) % |
| **Results** | | | | | | |
| Turnover | **1,317,711** | 1,637,659 | (19.5) | **1,132,140** | 1,358,907 | (16.7) |
| Profit for the year | **225,411** | 345,968 | (34.8) | **193,667** | 287,079 | (32.5) |
| **Financial position** | | | | | | |
| Total assets | **2,712,397** | 2,863,439 | (5.3) | **2,395,492** | 2,335,034 | 2.6 |
| Total liabilities | **981,030** | 1,129,162 | (13.1) | **866,411** | 920,792 | (5.9) |
| Net assets | **1,731,367** | 1,734,277 | (0.2) | **1,529,081** | 1,414,242 | 8.1 |
| Cash and cash equivalents | **543,486** | 671,336 | (19.0) | **479,987** | 547,451 | (12.3) |

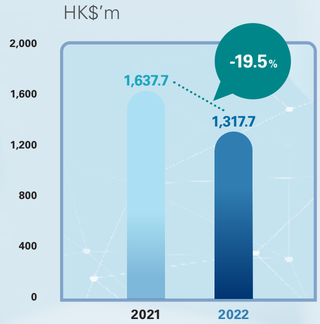
| | **2022** | 2021 | Increase/ (decrease) % |
|---|---|---|---|
| **Financial ratios** | | | |
| Current ratio (Note 1) | **2.16** | 2.24 | |
| Gearing ratio (Note 2) | **0.36** | 0.39 | |
| Gross profit margin (Note 3) | **90.3%** | 85.2% | |
| Net profit margin (Note 4) | **17.1%** | 21.1% | |
| Return on equity (Note 5) | **13.0%** | 19.9% | |
| Earnings per share | | | |
| – Basic | **HK39.27 cents** | HK60.00 cents | (34.6) |
| – Diluted | **HK38.28 cents** | HK58.13 cents | (34.1) |
| **Dividend per ordinary share** | | | |
| – Interim | **HK4.0 cents** | HK4.0 cents | – |
| – Final | **HK2.5 cents** | HK5.5 cents | (54.5) |
| | **HK6.5 cents** | HK9.5 cents | (31.6) |

*Notes:*

1 Current ratio: Total current assets/Total current liabilities
2 Gearing ratio: Total liabilities/Total assets
3 Gross profit margin: Gross profit/Turnover x 100%
4 Net profit margin: Profit for the year/Turnover x 100%
5 Return on equity: Profit for the year/Total equity x 100%

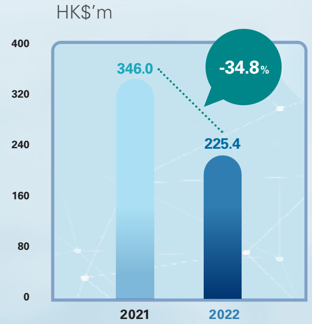
## Turnover

For the year ended 31 December
HK$'m



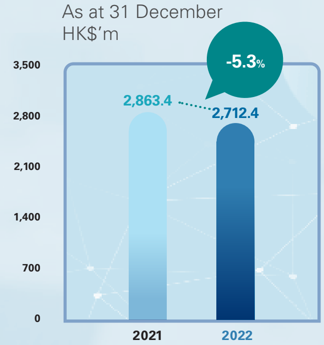

## Profit for the year

For the year ended 31 December
HK$'m




## Total assets

As at 31 December
HK$'m



# FINANCIAL REVIEW

The revenue of Essex Bio-Technology Limited (the "Company", together with its subsidiaries, the "Group") is chiefly derived and denominated in Renminbi from its operations in the People's Republic of China (the "PRC"). For the year ended 31 December 2022, the Group achieved a consolidated turnover of approximately HK$1,317.7 million, with a decrease of 19.5% as compared to approximately HK$1,637.7 million in 2021.

Correspondingly, the Group's profit decreased by 34.8% to approximately HK$225.4 million as compared to approximately HK$346.0 million in 2021. The Group's profit was weighed down by the impairment loss of approximately HK$25.8 million on goodwill arising from the acquisition of YesDok Pte Ltd and its wholly-owned subsidiary in 2021.

The decrease in turnover and profit is primarily attributable to the surge of COVID-19 cases particularly in the second half of 2022 in a number of provinces and municipalities in the PRC, which significantly disrupted the clinical operations of hospitals in the PRC and prevented non-emergency patients from visiting hospitals and outpatient clinics during 2022. As at the date of this report, the clinical operations of hospitals and outpatient clinics have progressively resumed to normalcy.

The Group's turnover is primarily made up of the ophthalmology segment ("Ophthalmology") and surgical (wound care and healing) segment ("Surgical"). The core products that are current growth drivers under each segment are:

1. Ophthalmology – Beifushu series (Beifushu eye drops, Beifushu eye gel and Beifushu unit-dose eye drops), Tobramycin Eye Drops, Levofloxacin Eye Drops, Sodium Hyaluronate Eye Drops and 適麗順® (Iodized Lecithin Capsules*); and

2. Surgical (wound care and healing) – Beifuji series (Beifuji spray, Beifuji lyophilised powder and Beifuxin gel), Carisolv® dental caries removal gel, 伢典醫生(Dr. YaDian) mouth wash and 伊血安顆粒(Yi Xue An Granules*).

The sectoral turnover of Ophthalmology and Surgical is approximately 42.0% and 58.0% of the Group's turnover, respectively. The combined turnover of the Group's flagship biologics, Beifushu series and Beifuji series (the basic fibroblast growth factor (bFGF) based biologic drugs), represented about 86.4% of the Group's total turnover, of which Beifushu series and Beifuji series accounted for 29.3% and 57.1% of the Group's turnover, respectively. The remaining 13.6% of the Group's turnover is mainly contributed by sales of Tobramycin Eye Drops, Levofloxacin Eye Drops, Sodium Hyaluronate Eye Drops, 適麗順® (Iodized Lecithin Capsules*), Carisolv® dental caries removal gel, 伢典醫生(Dr. YaDian) mouth wash and 伊血安顆粒(Yi Xue An Granules*), collectively.

Composition of turnover for the years ended 31 December 2022 and 2021, respectively, is shown in the following table:

| **Expressed in HK$' million** | **2022** | 2021 |
|---|---|---|
| Ophthalmology | **553.6** | 673.3 |
| Surgical | **764.1** | 964.4 |
| **Total** | **1,317.7** | 1,637.7 |

Ophthalmology contributed approximately HK$553.6 million to the Group's turnover for the year ended 31 December 2022, representing a decrease of 17.8% as compared to 2021. Surgical recorded a total turnover of approximately HK$764.1 million for the year ended 31 December 2022, representing a decrease of 20.8% as compared to 2021. The decrease was attributable to the aforementioned impact of COVID-19 outbreak in the PRC.

The distribution and selling expenses for the year under review were approximately HK$758.2 million as compared to approximately HK$836.0 million in 2021, representing a decrease of 9.3%. Such expenses primarily consisted of remuneration, advertising costs, travelling and transportation costs, costs for the organisation of seminars and conferences for product training and awareness, etc. The decrease was in line with the decrease in turnover for the year ended 31 December 2022.

The administrative expenses for the year under review were approximately HK$156.0 million as compared to approximately HK$153.8 million in 2021. The increase in administrative expenses was mainly due to an increase in costs for expansion of operations in the United States and Singapore and the establishment of on-line platform for medical consultation.

Total expenditures (inclusive of acquired intangible assets) incurred in R&D for the year ended 31 December 2022 were approximately HK$342.7 million (2021: approximately HK$207.9 million), representing 26.0% (2021: 12.7%) of the turnover, of which approximately HK$319.2 million (2021: approximately HK$184.4 million) were capitalised. The increase during the year under review was mainly due to the aforementioned acquisition of intellectual property rights of 適麗順® (Iodized Lecithin Capsules*).

The Group had cash and cash equivalents of approximately HK$543.5 million as at 31 December 2022 (2021: approximately HK$671.3 million).

The Group's bank borrowings as at 31 December 2022 were approximately HK$329.5 million (2021: approximately HK$416.8 million), among which 31.9% was repayable within 1 year and 68.1% was repayable in more than 1 year but within 5 years. Among the Group's bank borrowings as at 31 December 2022, 21.7% was denominated in Hong Kong Dollar, 19.5% was denominated in Renminbi and 58.8% was denominated in US Dollar. All of the Group's bank borrowings bear interest at floating rate. The interest rate of the Group's bank borrowings ranged from 3.6% to 7.2% per annum as at 31 December 2022. Please refer to the sub-section headed "Liquidity and Financial Resources" for details of banking facilities.

The total finance costs of the Group for the year ended 31 December 2022 were approximately HK$11.5 million (2021: approximately HK$9.2 million), including an imputed interest expense on the convertible loan payable and interest expenses on bank borrowings amounting to approximately HK$30.3 million (2021: approximately HK$14.8 million) of which approximately HK$18.9 million (2021: approximately HK$5.8 million) was capitalised during the year under review.

## CONVERTIBLE LOAN FROM INTERNATIONAL FINANCE CORPORATION ("IFC")

On 6 July 2016, the Company entered into a convertible loan agreement (the "Convertible Loan Agreement") with IFC, being a member of the World Bank Group and an international organisation established by Articles of Agreement among its member countries including the PRC, pursuant to which IFC agreed to lend, and the Company agreed to borrow, a convertible loan in an aggregate principal amount of HK$150.0 million at an interest rate of 1.9% per annum. Subject to the terms of the Convertible Loan Agreement, IFC has the right to convert all or any part of the outstanding principal amount of the convertible loan into ordinary shares of the Company ("Conversion Shares") at a conversion price of HK$5.90 per share (subject to adjustments as set out in the Convertible Loan Agreement) at any time prior to the maturity date on 2 August 2021.

On 10 July 2020, the Company and IFC entered into an amendment agreement to the Convertible Loan Agreement (the "Amendment Agreement") to extend the maturity date for a period of 3 years to 2 August 2024 (the "Extension"). Save as amended by the Amendment Agreement, the Convertible Loan Agreement and the terms and conditions of the convertible loan shall continue to be in full force and effect. Please refer to the announcement of the Company dated 10 July 2020 for details.

### *Use of net proceeds from the convertible loan*

The net proceeds from the convertible loan (after deducting the fees and expenses in relation to the obtaining of the convertible loan) are approximately HK$145.0 million, which were utilised for the Company's strategic investment in and development of the Group's biologic business and general working capital requirements. All net proceeds had been utilised in 2018 according to the intended use.

### *Dilutive effect of the conversion of the convertible loan*

As at 31 December 2022, no part of the outstanding principal amount of the convertible loan of HK$150.0 million has been converted into Conversion Shares.

On the assumption that the convertible loan would be converted into Conversion Shares in full at the initial conversion price of HK$5.90 per share, the aggregate principal amount of the convertible loan of HK$150.0 million is convertible into 25,423,728 Conversion Shares.

The following table sets out the total number of shares that the Company should issue if the convertible loan has been fully converted on 31 December 2022:

| **Shareholders** | **As at 31 December 2022** | | **Immediately upon full conversion of the convertible loan at the conversion price of HK$5.90 per share** | |
|---|---|---|---|---|
| | No. of shares | Approximate % | No. of shares | Approximate % |
| Ngiam Mia Je Patrick | 147,279,000 | 25.77 | 147,279,000 | 24.67 |
| Ngiam Mia Kiat Benjamin | 145,354,000 | 25.43 | 145,354,000 | 24.35 |
| Dynatech Ventures Pte Ltd (Note 1) | 6,666,667 | 1.17 | 6,666,667 | 1.12 |
| Directors of the Company (the "Directors") within last 12 months (other than Ngiam Mia Je Patrick) (Note 2) | 7,329,300 | 1.28 | 7,329,300 | 1.23 |
| IFC | – | – | 25,423,728 | 4.26 |
| Other shareholders | 264,974,033 | 46.35 | 264,974,033 | 44.37 |
| | 571,603,000 | 100 | 597,026,728 | 100 |

*Notes:*

(1) 6,666,667 shares were held by Dynatech Ventures Pte Ltd which was wholly owned by Essex Investment (Singapore) Pte Ltd, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares.

(2) Amongst these 7,329,300 shares, 5,244,300 shares were registered in the name of Fang Haizhou, 2,039,000 shares were registered in the name of Ngiam Hian Leng Malcolm and 46,000 shares were registered in the name of Yau Lai Man.

(3) Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director) and is deemed to be interested in the shares in which Ngiam Mia Je Patrick is interested/deemed to be interested.

### *Dilutive effect on earnings per share*

Based on the profit attributable to owners of the Company of approximately HK$225.4 million for the year ended 31 December 2022, the basic and diluted earnings per share attributable to owners of the Company, after considering the full conversion of the convertible loan, were HK39.27 cents and HK38.28 cents respectively.

### *The Company's ability to meet the repayment obligations under the convertible loan*

Based on the cash and cash equivalents as at 31 December 2022 and the cash flow from the operations of the Company for the year then ended, the Company has the ability to meet its repayment obligations under the convertible loan which remained unconverted to Conversion Shares as at 31 December 2022.

Based on the implied internal rate of return of the convertible loan, the Company's share price on the maturity date at which it would be equally financially advantageous for IFC to convert or redeem the convertible loan would be HK$8.13 per share.

## GENERAL DISCLOSURE UNDER RULES 13.18 AND 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE") – LOAN FROM IFC

As disclosed in the announcement of the Company dated 10 July 2020, the Group entered into a loan agreement with IFC (the "Loan Agreement") to borrow a loan in the aggregate principal amount of US$25.0 million (equivalent to approximately HK$193.7 million) (the "Loan"). On 13 October 2020, the Loan has been fully drawn by the Group.

Pursuant to the Loan Agreement, the occurrence of any of the following events would constitute an event of default, and as a result, IFC may require the Group to immediately repay the Loan and all interest accrued and all other amounts payable in accordance with the Loan Agreement:

(i) Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Lauw Hui Kian, as a group, for any reason ceases to own, directly and indirectly:

  (A) at any time prior to the Loan Permitted Dilution Event (as defined below), at least 40%; and

  (B) at any time on or after the Loan Permitted Dilution Event (as defined below), at least 35%,

  of both the economic and voting interests in the Company's share capital (determined on a fully diluted basis), and for the purpose of this paragraph (i), the "Loan Permitted Dilution Event" means the consummation of an acquisition permitted under the Loan Agreement with the consideration payable in whole or in part by the Company in the form of shares that causes Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Lauw Hui Kian, as a group, to own, directly and indirectly, less than 40% of both the economic and voting interests in the Company's share capital (determined on a fully diluted basis); or

(ii) Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Lauw Hui Kian, as a group, at any time and for any reason ceases to be the single largest direct and indirect shareholder of the Company (determined on a fully diluted basis).

Due to the outbreak of COVID-19, the Group's business operation and financial performance have been negatively impacted. The board of the Directors (the "Board") considers that the Extension of the Convertible Loan Agreement and the obtain of the Loan are prudent measures, which would effectively provide the Group with flexibility in relation to the Group's deployment of its financial resources to fund its operation and development plans during the difficult period of COVID-19. Accordingly, the Board considers the respective terms of the Amendment Agreement and the Loan Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

## REPURCHASE OF SHARES

During the year under review, the Company repurchased 3,833,000 of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company as at the date of this report. The total amount paid for the repurchases of HK$14,186,650 was paid wholly out of retained profits of the Company. Details of those transactions are as follows:

| Month | Number of shares repurchased | Price per share Highest | Price per share Lowest | Total price paid |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| January 2022 | 393,000 | 5.15 | 4.72 | 1,927,420 |
| February 2022 | 88,000 | 5.16 | 4.90 | 441,220 |
| March 2022 | 102,000 | 4.35 | 4.08 | 423,910 |
| April 2022 | 118,000 | 4.35 | 4.09 | 491,540 |
| May 2022 | 278,000 | 3.87 | 3.26 | 986,920 |
| June 2022 | 519,000 | 4.01 | 3.36 | 1,912,240 |
| July 2022 | 987,000 | 3.94 | 3.61 | 3,643,160 |
| August 2022 | 33,000 | 3.98 | 3.67 | 123,530 |
| September 2022 | 30,000 | 4.10 | 4.05 | 122,200 |
| October 2022 | 476,000 | 3.35 | 2.96 | 1,484,110 |
| November 2022 | 747,000 | 3.48 | 3.10 | 2,420,800 |
| December 2022 | 62,000 | 3.86 | 3.27 | 209,600 |
| | 3,833,000 | | | 14,186,650 |

The repurchase of the Company's shares was effected by the Directors, pursuant to the mandate granted by the shareholders of the Company to the Directors at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this report, as at 31 December 2022, the Group did not have any immediate plan for material investments or acquisition of material capital assets.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group obtained banking facilities of approximately HK$602.0 million, of which approximately HK$485.2 million was utilised. Certain of the banking facilities were secured by the corporate guarantees provided by the Company and its certain subsidiaries and a pledged deposit which amounted to approximately HK$14.3 million.

As at 31 December 2022, the Group had cash and cash equivalents of approximately HK$543.5 million as compared to approximately HK$671.3 million as at 31 December 2021. Among the cash and cash equivalents of the Group as at 31 December 2022, 66.0% was denominated in Renminbi, 27.3% was denominated in Hong Kong Dollar and 6.1% was denominated in US Dollar.

The Group monitors its capital structure on the basis of a gearing ratio which is defined as the ratio of total liabilities to total assets. The gearing ratio as at 31 December 2022 was 36.2% (2021: 39.4%).

## CHARGES ON GROUP ASSETS

As at 31 December 2022, a bank deposit of approximately HK$14.3 million (2021: bank deposits of approximately HK$53.5 million) was pledged to secure the Group's banking facilities.

## CAPITAL COMMITMENTS

As at 31 December 2022, the Group had capital commitments which amounted to approximately HK$373.4 million (2021: approximately HK$582.6 million).

## CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities (2021: Nil).

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Save as disclosed in this report, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2022.

## SIGNIFICANT INVESTMENTS HELD

Save as disclosed in this report, the Group did not hold any significant investments as at 31 December 2022.

## FOREIGN EXCHANGE EXPOSURE

It is the Group's policy to borrow and deposit cash in local currencies to minimise currency risk.

The Group's assets, liabilities and transactions are mainly denominated in Hong Kong Dollar, Renminbi or US Dollar. The Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange risks and therefore no hedging arrangements were made. So long as the linked exchange rate system in Hong Kong with US Dollar is maintained, it is expected that the Group will not be subject to any significant exchange risk. However, the Group will review and monitor the relevant foreign exchange exposure from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements as appropriate.

## TREASURY POLICY

The Group generally financed its operations with internally generated cash flows, bank and other borrowings. The Group placed these resources into interest-bearing bank accounts opened with the PRC and Hong Kong banks and earned interests in accordance with the PRC and Hong Kong banks rates. Bank deposits were mainly denominated in Renminbi, Hong Kong Dollar and US Dollar.

## EMPLOYEES

As at 31 December 2022, the Group had a total of 1,471 full-time employees (2021: 1,379 full-time employees). The aggregate remuneration of the Group's employees, including that of the Directors, for the year under review and the preceding year amounted to approximately HK$303.4 million and approximately HK$306.3 million, respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the Directors depending on the financial performance of the Group. Details of the share option scheme of the Company are disclosed in note 35 to the financial statements.

The remuneration of each executive Director has been determined with reference to the time commitment and responsibilities of each executive Director, and to the operating results of the Group and his/her performance in the relevant financial year.

* For identification purpose only

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### *NGIAM MIA JE PATRICK#*

Aged 68, Mr. Ngiam is the founder of the Group, which was established in February 1999, an executive Director and Chairman of the Company. He is a member of the remuneration committee and nomination committee of the Company, a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Healthtech Investment Limited, UNO Medical Group Limited, Zhuhai UNO Technology Company Limited*, Zhuhai Essex Bio-Pharmaceutical Company Limited*, UNO Medical (Zhuhai) Company Limited*, UNO Medical Group Private Limited and Zhuhai Essex Bio-Sciences Company Limited*, all being subsidiaries of the Company. He is responsible for corporate planning, business development strategy and overall direction of the Group.

Mr. Ngiam graduated in electronics engineering and has received many accolades and awards for his achievements. Notably, in 1990, he was awarded the first KPMG Singapore High Tech Entrepreneur Award. Other awards include the DHL & Singapore Press Holdings Business Award for Businessman of the Year in 1994 and the Chevalier DE L'ORDRE NATIONAL DU MERITE conferred by Le President De La Republique Francaise in 1996.

As at the date of this report, Mr. Ngiam was directly interested in 147,279,000 shares of the Company, and was also deemed to be interested in 6,666,667 shares of the Company held by Dynatech Ventures Pte Ltd, a wholly-owned subsidiary of Essex Investment (Singapore) Pte Ltd, which in turn was owned by Mr. Ngiam and Ngiam Mia Kiat Benjamin (who is a director of a wholly-owned subsidiary of the Company) in equal shares. Mr. Ngiam is a brother of Ngiam Mia Kiat Benjamin. Mr. Ngiam is also a director of each of Dynatech Ventures Pte Ltd and Essex Investment (Singapore) Pte Ltd, as well as Chairman and Chief Executive Officer of IPC Corporation Ltd and non-executive director of Wilton Resources Corporation Limited, which are both listed on the Singapore Exchange Securities Trading Limited.

### *FANG HAIZHOU*

Aged 57, Mr. Fang is an executive Director and Managing Director of the Company. He has a bachelor's degree in Bio-chemical Engineering from Southern China Institute (華南工學院) and a master's degree in Engineering from Southern China University of Technology (華南理工大學). Mr. Fang is qualified as a Senior Pharmaceutical Engineer (Professor Level) by the Department of Human Resources and Social Security of the Guangdong Province. He has been with Zhuhai Essex Bio-Pharmaceutical Company Limited* since its establishment in June 1996. Mr. Fang is also a director of Essex Bio-Investment Limited and Essex Bio-Pharmacy Limited, all being subsidiaries of the Company.

As at the date of this report, Mr. Fang was personally interested in 5,244,300 shares of the Company.

### *NGIAM HIAN LENG MALCOLM#*

Aged 38, Mr. Malcolm Ngiam is an executive Director and Deputy Managing Director of the Company. Mr. Malcolm Ngiam is the President of Essex Bio-Investment Limited, a wholly-owned subsidiary of the Company. He is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Zhuhai Essex Bio-Pharmaceutical Company Limited*, Essex Medipharma (Zhuhai) Company Limited*, Wuhan Adv. Dental Company Limited*, Essex (Wuxi) Healthtech Company Limited*, Majeton Pte. Ltd., UNO Medical Group Private Limited and EssexBio Pte. Ltd., all being subsidiaries of the Company. Mr. Malcolm Ngiam is principally responsible for strategic corporate planning, business development and overall operational management of the Group.

Prior to joining the Group in 2015, Mr. Malcolm Ngiam was involved in translational and therapeutics research for more than 10 years. Mr. Malcolm Ngiam leads the business development team of the Group for executing various investment projects and has direct oversight of the research and development and marketing functions of the Group. Mr. Malcolm Ngiam graduated from Imperial College London and has a bachelor's degree in Biochemistry.

As at the date of this report, Mr. Malcolm Ngiam was personally interested in 2,039,000 shares of the Company.

### *YAU LAI MAN*

Aged 59, Ms. Yau is an executive Director of the Company. She is the company secretary and authorised representative of the Company. Ms. Yau is a member of the corporate governance committee of the Company, a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Zhuhai Essex Bio-Pharmaceutical Company Limited*, Zhuhai UNO Technology Company Limited* and UNO Medical (Zhuhai) Company Limited*, all being subsidiaries of the Company. Ms. Yau is principally responsible for financial planning and management of the Group.

Prior to joining the Group in 2001, Ms. Yau had worked with a "big four" accounting firm and a multinational corporation. Ms. Yau is currently an independent non-executive director of Chu Kong Shipping Enterprises (Group) Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 560). Ms. Yau obtained a master's degree in business administration from The University of Warwick in the United Kingdom. Ms. Yau is a member of the Hong Kong Institute of Certified Public Accountants and is also a member of the Institute of Chartered Accountants in England & Wales.

As at the date of this report, Ms. Yau was personally interested in 46,000 shares of the Company.

### *FUNG CHI YING*

Aged 68, Mr. Fung was appointed as an independent non-executive Director on 13 June 2001. Mr. Fung is a practising solicitor in Hong Kong. He is presently a partner of Adrian Yeung & Cheng, Solicitors. Mr. Fung is also the chairman of the audit committee and a member of the remuneration committee, nomination committee and corporate governance committee of the Company.

As at the date of this report, Mr. Fung had no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

### *MAUFFREY BENOIT JEAN MARIE*

Aged 70, Mr. Mauffrey was appointed as an independent non-executive Director on 13 June 2001. He is experienced in business development and sales and marketing in satellite-related industries in the Asia Pacific region. He is also a member of the audit committee, remuneration committee, nomination committee and corporate governance committee of the Company.

As at the date of this report, Mr. Mauffrey had no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

### *YEOW MEE MOOI*

Aged 60, Ms. Yeow was appointed as an independent non-executive Director on 30 September 2004. Ms. Yeow graduated from The University of Southwestern Louisiana, the United States of America, with a bachelor's degree in business administration. Ms. Yeow further obtained her postgraduate diploma in financial management from The University of New England, Australia. Ms. Yeow is a certified practicing accountant of The Hong Kong Institute of Certified Public Accountants and The Australian Society of Certified Practising Accountants. Ms. Yeow has over 31 years' taxation, auditing and commercial experience in Hong Kong. Ms. Yeow is now a director of a management consulting firm in Hong Kong. She is also the chairperson of the remuneration committee, nomination committee and corporate governance committee and a member of the audit committee of the Company.

As at the date of this report, Ms. Yeow had no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

## SENIOR MANAGEMENT

### *ZHENG ZANSHUN*

Aged 51, Mr. Zheng has been with Zhuhai Essex Bio-Pharmaceutical Company Limited* since its establishment in June 1996 and has over 28 years of working experience in gene recombination technology and drug quality standards. Mr. Zheng has a bachelor's degree in Biochemistry from School of Life Sciences in Peking University. Mr. Zheng is qualified as a Senior Pharmaceutical Engineer by the Department of Human Resources and Social Security of the Guangdong Province. Mr. Zheng was appointed as the managing director of Zhuhai Essex Bio-Pharmaceutical Company Limited* and Essex Medipharma (Zhuhai) Company Limited*, all being subsidiaries of the Company, on 27 September 2018 and 16 May 2019 respectively. He is also a director of Zhuhai Essex Bio-Sciences Company Limited*, a subsidiary of the Company.

As at the date of this report, Mr. Zheng was personally interested in 582,000 shares of the Company.

### *DR. XUE QI*

Aged 61, Dr. Xue joined the Group as Chief Scientific Officer on 16 April 2018. He is also a director of EssexBio Therapeutics Inc., being a subsidiary of the Company. Dr. Xue is a well-known science expert in anti-cancer drug discovery and development. He is highly experienced in tumor microenvironment, immuno-oncology and angiogenesis assessment. He has direct oversight of the Group's research and development centre in Zhuhai for development programmes in oncology, ophthalmology and dermatology. Dr. Xue obtained his Clinical Research Scholar Certificate from Harvard Medical School in the USA in June 2014. Dr. Xue graduated from Gunma University in Japan with a doctoral degree in Pathology in 2001.

As at the date of this report, Dr. Xue held 1,000,000 share options of the Company.

# Mr. Patrick Ngiam and Mr. Malcolm Ngiam are in a father-son relationship.

* For identification purpose only

# REPORT OF THE DIRECTORS

The directors (the "Directors") of Essex Bio-Technology Limited (the "Company", together with its subsidiaries, the "Group") are pleased to present their report and the audited financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2022.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 38 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2022.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2022 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 57 to 131.

An interim dividend of HK$0.04 per ordinary share was paid on 21 September 2022. The Directors have recommended the payment of a final dividend of HK$0.025 per ordinary share for the financial year ended 31 December 2022 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 19 June 2023. Subject to shareholders' approval, the final dividend will be payable on Thursday, 29 June 2023. As at the date of this report, there was no arrangement with any shareholder of the Company under which he/she/it has waived or agreed to waive any dividends.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 6 June 2023 to Friday, 9 June 2023 (both days inclusive) for ascertaining shareholders' right to attend and vote at the forthcoming annual general meeting to be held on Friday, 9 June 2023. During this period, no transfer of shares will be registered. In order to be entitled to attend the aforesaid annual general meeting, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 5 June 2023.

The register of members of the Company will be closed from Thursday, 15 June 2023 to Monday, 19 June 2023 (both days inclusive) for ascertaining shareholders' entitlement to the proposed final dividend. No transfer of shares will be registered during this period. In order to be qualified for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Friday, 9 June 2023, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 14 June 2023.

## FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on page 132. This summary does not form part of the audited financial statements.

## BUSINESS REVIEW

### *Overview*

The Group's emphasis continued primarily on manufacturing and selling of its flagship biologic drugs (the bFGF Series) for the treatment and healing of surface wounds and eye wounds, together with other pharmaceutical products (Tobramycin Eye Drops, Levofloxacin Eye Drops, Sodium Hyaluronate Eye Drops, 適麗順® (Iodized Lecithin Capsules*), Carisolv® dental caries removal gel, 伢典醫生 (Dr. YaDian) mouth wash and 伊血安顆粒 (Yi Xue An Granules*)). The Group's turnover is primarily made up of the ophthalmology segment ("Ophthalmology") and surgical (wound care and healing) segment ("Surgical") covering dermatology, stomatology, obstetrics and gynaecology; while pursuing new therapeutics in oncology, orthopaedics and neurology through the Group's enrichment programme since 2015. The Group maintains a pipeline of multi-project in research and development ("R&D") at various stages of clinical programmes, which cover a handful of unit-dose ophthalmic products and biologics in growth factors and antibody.

As at the date of this report, there are 16 R&D programmes in the pre-clinical to clinical stage, out of which 4 ophthalmology programmes (inclusive of a new addition of EB11-21148P during the year under review) are in clinical stage. The 4 ophthalmology programmes listed below are targeted as mid-term growth driver.

1. EB11-18136P: SkQ1 eye drops, second phase 3 clinical trial (United States Food and Drug Administration ("US FDA")) (VISTA-2) topline data released on 24 February 2021

2. EB11-15120P: Azithromycin eye drops, ongoing review by external key opinion leaders (National Medical Products Administration ("NMPA") in the People's Republic of China (the "PRC"))

3. EB12-20145P: Bevacizumab intravitreal injection for (wet) age-related macular degeneration ("wet-AMD"), phase 3 clinical trial (US FDA, European Medicines Agency, Therapeutic Goods Administration ("TGA") and NMPA in the PRC)

4. EB11-21148P: Cyclosporin eye drops, phase 2 clinical trial (NMPA in the PRC)

The Group's therapeutic products are being prescribed in more than 10,900 hospitals and medical providers, coupled with approximately 2,130 pharmaceutical stores, which are widely located in the major cities, provinces and county cities in the PRC and are managed directly by its 43 regional sales offices (the "RSOs") with about 1,240 sales and marketing representatives.

## FINANCIAL KEY PERFORMANCE INDICATORS

For the year ended 31 December 2022, the Group achieved a consolidated turnover of approximately HK$1,317.7 million, with a decrease of 19.5% as compared to approximately HK$1,637.7 million in 2021. For the year ended 31 December 2022, the Group's profit decreased by 34.8% to approximately HK$225.4 million as compared to approximately HK$346.0 million in 2021.

Ophthalmology contributed approximately HK$553.6 million to the Group's turnover for the year ended 31 December 2022, representing a decrease of 17.8% as compared to 2021. Surgical recorded a total turnover of approximately HK$764.1 million for the year ended 31 December 2022, representing a decrease of 20.8% as compared to 2021.

As at 31 December 2022, the Group maintains a network of 43 RSOs and a total number of about 1,240 sales and marketing representatives, out of which 65% are full-time employees and 35% are on contract basis or from appointed agents.

To reward our valued shareholders for their years of valuable support, an interim dividend of HK$0.04 per ordinary share was paid on 21 September 2022 and the board of Directors (the "Board") is proposing a final dividend of HK$0.025 per ordinary share to be approved at the upcoming annual general meeting of the Company.

The Group had cash and cash equivalents of approximately HK$543.5 million as at 31 December 2022 (2021: approximately HK$671.3 million).

The Group's bank borrowings as at 31 December 2022 were approximately HK$329.5 million (2021: approximately HK$416.8 million), among which 31.9% was repayable within 1 year and 68.1% was repayable in more than 1 year but within 5 years. Among the Group's bank borrowings as at 31 December 2022, 21.7% was denominated in Hong Kong Dollar, 19.5% was denominated in Renminbi and 58.8% was denominated in US Dollar. All of the Group's bank borrowings bear interest at floating rate. The interest rate of the Group's bank borrowings ranged from 3.6% to 7.2% per annum as at 31 December 2022.

The total finance costs of the Group for the year ended 31 December 2022 were approximately HK$11.5 million (2021: approximately HK$9.2 million), including an imputed interest expense on the convertible loan payable and interest expenses on bank borrowings amounting to approximately HK$30.3 million (2021: approximately HK$14.8 million) of which approximately HK$18.9 million (2021: approximately HK$5.8 million) was capitalised during the year under review.

## FUTURE DEVELOPMENT

The Group expects continued organic growth from its flagship biologic drugs, formulated with recombinant bovine basic fibroblast growth factor (rb-bFGF), in the near future years. This will be realised through expanding sales into major county cities in the PRC and executing its clinical plans to affirm additional therapeutic indications. In addition, the Group expects continued contributions from a range of unit-dose eye drops (Tobramycin, Levofloxacin, Sodium Hyaluronate and Moxifloxacin Hydrochloride Eye Drops), as well as Carisolv® dental caries removal gel and 伢典醫生 (Dr. YaDian) mouth wash.

On 8 March 2022, the acquisition of intellectual property rights relating to technologies and process of product R&D, production, and right of Marketing Authorisation Holder of 適麗順® (Iodized Lecithin Capsules*) was completed and 適麗順® (Iodized Lecithin Capsules*) has become one of the Group's core products since then.

Leveraging its established market access capability, the Group undertakes the promotion and selling of a range of products and medical devices that are to complement the Group's therapeutics business of Ophthalmology and Surgical, including 伊血安顆粒 (Yi Xue An Granules*), Soft Hydrophilic Contact Lens, Ultrasound Cycloplasty (UCP), Foldable Capsular Vitreous Body, Portable Ultraviolet Phototherapy Devices, PELNAC™ collagen-based artificial dermis and other medical devices for myopia control and prevention such as eye-protection lamp and Seewant defocus customised glasses.

As at the date of this report, there are 16 R&D programmes in the pre-clinical to clinical stage, out of which 4 ophthalmology programmes (inclusive of a new addition of EB11-21148P during the year under review) are in clinical stage. The 4 ophthalmology programmes listed below are targeted as mid-term growth driver.

1. EB11-18136P: SkQ1 eye drops, second phase 3 clinical trial (US FDA) (VISTA-2) topline data released on 24 February 2021

2. EB11-15120P: Azithromycin eye drops, ongoing review by external key opinion leaders (NMPA in the PRC)

3. EB12-20145P: Bevacizumab intravitreal injection for wet-AMD, phase 3 clinical trial (US FDA, European Medicines Agency, TGA and NMPA in the PRC)

4. EB11-21148P: Cyclosporin eye drops, phase 2 clinical trial (NMPA in the PRC)

While the Group is staying focused on investing in products and expanding market access for its Ophthalmology and Surgical (wound care and healing) business segments, especially striving to be one of the leading players in Ophthalmology in Asia, the Group seeks new therapeutics, particularly in Oncology, from the long-term development perspective. The investment made in Antikor Biopharma Limited, a company focusing on the development of antibody fragment drug conjugates for cancer treatment, is a strategic consideration to enable the Group to advance its therapeutics into oncology as long-term growth driver.

Beyond therapeutics, the Group started investing in therapy service business 3 years ago. Under this initiative, the Group currently operates two Telemedicine ("TM") platforms:

1. Quanyi e-clinic (全一e診) in China

2. YesDok in Indonesia

The two TM platforms are at a growth development phase with an objective to develop an ecosystem for patients, practitioners and pharmacies to enable online consultation, e-prescription and remote delivery of drugs, in particular for patients with chronic disease or in far reaching area.

## EVENT AFTER THE REPORTING PERIOD

On 22 February 2023, the Group entered into an amendment agreement with Shanghai Henlius Biotech, Inc. to amend certain terms of the co-development and exclusive license agreement dated 15 October 2020, which include payments for regulatory and commercial sales milestones and development costs in respect of a pharmaceutical product that contains an anti-vascular endothelial growth factor as a drug substance. Please refer to the announcement of the Company dated 22 February 2023 and the annual results announcement of the Company dated 8 March 2023 for details.

## PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of factors that may affect the performance of the Group. The summary of major risks and uncertainties is as follows:

### *1 Compliance with the Good Manufacturing Practices ("GMP") Standards*

All pharmaceutical manufacturers in the PRC will be required to comply with the GMP standards, otherwise the pharmaceutical manufacturing enterprise permits will be revoked, resulting in the termination of the production. Any failure to comply with the relevant rules and regulations necessary for our operations may result in termination of ongoing operations by regulatory bodies. These may lead to cease of operations and corrective measures requiring additional expenditures or remedial actions, which in the future could materially and adversely affect our reputation, business, financial conditions and results of operations.

### *2 Research and Development Risk*

The Group's future prospect is dependent upon the continuous development and successful commercialisation of new products or the progress of milestones achievement of projects. As one of its expansion strategies, the Group intends to form strategic alliances with suitable partners or candidates that would offer the Group access to promising research projects. The success of biologic drug development and the progress of milestones achievement are highly unpredictable. Products that appear to be promising at the early phases of R&D may fail to reach the market for numerous reasons, including the discovery of harmful side effects in pre-clinical tests and clinical trials, unsatisfactory results in clinical trials and the failure to obtain the necessary regulatory approvals. Consequently, the corresponding R&D expenditure incurred would have to be expensed, which will have an adverse impact on the profitability of the Group.

### *3 Product Substitution*

New drug discoveries and developments in recombinant DNA technology and other pharmaceutical processes are expected to continue at a rapid pace. It is difficult to predict the effect of future technological changes and discoveries on the viability or competitiveness of the Group's products. It is essential for the Group to respond to these changes by developing new products in a timely manner to meet technological advances in the market. In addition, new alliances may have to be formed with new technological partners to enable the Group to have access to emerging technologies and new discoveries. The Group has to adopt and modify development methods, processes and programmes in response to new technologies and discoveries. The failure of the Group to respond rapidly to changing technologies and new discoveries could have a material and adverse impact on the Group's performance. There is also no assurance that other parties will not independently develop products having therapeutic effects similar or superior to the Group's products.

### *4 Pharmaceutical Pricing Policies in the PRC*

The drug pricing system in the PRC is controlled by the government, and it affects the pharmaceutical industry, drug price setting and regulation. Under government intervention, price reduction across therapeutic categories was common during the last 20 years, which may exert a downward pressure against the price of pharmaceutical products and our market share, revenue and profitability may be adversely affected.

### *5 Impact of Local Regulations*

The healthcare system in the PRC is undergoing a crucial reform period, where laws, regulations and policies in effect governing the medical, healthcare and pharmaceutical industry are constantly evolving, in which the Group operates could have a material impact on the results of its operations or growth prospect. The changing political, social, legal, tax, regulatory and environmental requirements at the local level may subject the Group to material and adverse effects, thus leading to more uncertainties and risks in respect of our business and operation.

### *6 Impact of COVID-19*

The COVID-19 pandemic has been declared globally and has not shown any indication of its end. While the Group has considered the potential financial impact of COVID-19 in the preparation of the financial statements, the full extent of the probable impact of the COVID-19 disruptions on its operating and financial performance for the financial year ending 31 December 2023 remains uncertain. Accordingly, there is a possibility that factors not currently anticipated by management could occur in the future and the Group's assets may be subject to impairment loss in the subsequent financial periods.

7 *Volume-Based, Centralised Drug Procurement*

The PRC government launched a national program for volume-based, centralised drug procurement with minimum quantity commitments in an attempt to negotiate lower prices from drug manufacturers and reduce the price of drugs. Under the program, one of the key determining factors for a successful bid is the price. The government will award a contract to the lowest bidders who are able to satisfy the quality and quantity requirements. The successful bidders will be guaranteed a sale volume for at least a year. A volume guarantee gives the winner an opportunity to gain or increase market share. The volume guarantee is intended to make manufacturers more willing to cut their prices to win a bid. It may also enable manufacturers to lower their distribution and commercial costs. Many types of drugs are covered under the program, including drugs made by international pharmaceutical companies and generics that have passed NMPA's evaluation on the consistency of both quality and efficacy. Moreover, the program may change how the aforementioned generic drugs are priced and procured in the PRC and is likely to accelerate the replacement of originator drugs with generics. We cannot be sure whether there will be any changes to the program in the future. The implementation of the program may negatively impact our existing commercial operations in the PRC as well as our strategies on how to commercialise our drugs in the PRC, which could have a material adverse effect on our business, financial condition and results of operations.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. We strive to minimise our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also require our suppliers to operate in strict compliance with the relevant environmental regulations and rules and obtain all necessary permission and approval from the relevant government authorities.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report of the Company prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") will be published at the same time as the publication of this report.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group is subject to, among others, the following major laws and regulations:

*Hong Kong*

- Listing Rules
- Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO")
- Companies Ordinance (Chapter 622, Laws of Hong Kong)

*PRC*

1 *Pharmaceuticals production and operation*

- Pharmacopoeia of the PRC《中華人民共和國藥典》
- Pharmaceutical Administration Law of the PRC《中華人民共和國藥品管理法》
- Regulations for the Implementation of the Pharmaceutical Administration Law of the PRC《中華人民共和國藥品管理法實施條例》
- Measures for the Supervision and Administration of Production of Pharmaceutical Products《藥品生產監督管理辦法》
- Good Manufacturing Practices for Pharmaceutical Products《藥品生產質量管理規範》
- Good Supply Practices for Pharmaceutical Products《藥品經營質量管理規範》
- Regulations for the Implementation of the Good Supply Practices for Pharmaceutical Products《藥品經營品質管制規範實施細則》
- Measures for the Administration of Business Licenses for Pharmaceutical Products《藥品經營許可證管理辦法》
- Measures for the Supervision and Administration of Circulation of Pharmaceutical Products《藥品流通監督管理辦法》
- Measures for the Administration of the Prescription and Non-prescription Drugs (Trial)《處方藥與非處方藥分類管理辦法(試行)》
- Measures for the Administration of Drug Registration《藥品註冊管理辦法》
- Notice on Issuing the Opinions on Pushing Forward the Pharmaceutical Pricing Reform《關於印發推進藥品價格改革意見的通知》
- Opinions on the Implementation of the "Two Invoicing System" in Drugs Procurement in Public Medical Organisations (Trial)《關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)》
- Opinions on the Pharmaceutical Pricing Management《關於做好當前藥品價格管理工作的意見》
- Provisions on the Administration of Pharmaceutical Directions and Labels《藥品說明書和標簽管理規定》
- Measures for the Administration of Drug Recalls《藥品召回管理辦法》
- Guiding Principles for Pharmacovigilance Inspections《藥物警戒檢查指導原則》
- Regulation on the Administration of Annual Reports on Drugs《藥品年度報告管理規定》

2 *Environmental and social standards*

- Environmental Protection Law of the PRC《中華人民共和國環境保護法》
- Labour Law of the PRC《中華人民共和國勞動法》
- Labour Contract Law of the PRC《中華人民共和國勞動合同法》
- Work Safety Law of the PRC《中華人民共和國安全生產法》
- Water Pollution Prevention and Control Law of the PRC《中華人民共和國水污染防治法》
- Energy Conservation Law of the PRC《中華人民共和國節約能源法》
- Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes《中華人民共和國固體廢物污染環境防治法》
- Fire Protection Law of the PRC《中華人民共和國消防法》
- Occupational Disease Prevention and Control Law of the PRC《中華人民共和國職業病防治法》
- Regulations for the Safety Management of Hazardous Chemicals《危險化學品安全管理條例》
- Water Law of the PRC《中華人民共和國水法》
- Special Rules on the Labour Protection of Female Employees《女職工勞動保護特別規定》

3 *Internet policies*

- Measures for the Administration of Drug Information Service over the Internet《互聯網藥品信息服務管理辦法》
- Notice on Issuing "Measures for the Administration of Internal Hospitals (Trial)", "Measures for the Administration of Internal Diagnosis and Treatment (Trial)" and "Specifications for the Administration of Remote Medical Services (Trial)" 關於印發《互聯網醫院管理辦法(試行)》、《互聯網診療管理辦法(試行)》及《遠程醫療服務管理規範(試行)》的通知
- Guiding Opinions on Improving the Policies of "Internal Plus" Medical Service Prices and Medical Insurance Payment《關於完善「互聯網+」醫療服務價格和醫保支付政策的指導意見》
- Opinions on Promoting the Development of "Internal Plus Health Care"《關於促進「互聯網+醫療健康」發展的意見》
- Measures for the Supervision and Administration of Online Sales of Pharmaceutical Products《藥品網絡銷售監督管理辦法》

4 *Medical devices*

- Measures for the Administration of the Clinical Use of Medical Devices《醫療器械臨床使用管理辦法》
- Regulation on the Supervision and Administration of Medical Devices《醫療器械監督管理條例》
- Measures for the Administration of Medical Equipment in Medical and Health Institutions《醫療衛生機構醫學裝備管理辦法》
- Measures for the Administration of the Standards for Medical Devices《醫療器械標準管理辦法》
- Decision on Adjusting the Approval Procedures of the Administrative Approval Items for Certain Medical Devices《關於調整部分醫療器械行政審批事項審批程序的決定》
- Measures for the Supervision and Administration of Quality in the Use of Medical Devices《醫療器械使用質量監督管理辦法》
- Measures for the Supervision and Administration of Medical Devices《醫療器械經營監督管理辦法》
- Measures for the Administration of Registration and Record of Medical Devices《醫療器械註冊與備案管理辦法》
- Measures for the Supervision and Administration of Production of Medical Devices《醫療器械生產監督管理辦法》

During the year ended 31 December 2022, the Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

## KEY RELATIONSHIPS

### 1 *Employees*

Human resources are one of the greatest assets of the Group and the Group considers the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. The training programs cover areas such as managerial skills, sales and production, customer services, quality control and training of other areas relevant to the industry.

The Group offers competitive remuneration packages to our employees. The Group has also adopted share option schemes to recognise and reward the contribution of the employees to the growth and development of the Group.

### 2 *Suppliers*

We have developed long-standing relationships with a number of our vendors and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

### 3 *Marketing agents and distributors*

We sell our products to hospitals through RSOs, marketing agents and distributors. We require our RSOs, marketing agents and distributors to comply with the relevant laws and regulations and our sales and marketing policies, including but not limited to the selling price and promotional activities. We also monitor the financial condition and repayment history of our distributors, and the sales performance of them.

### 4 *Hospitals and doctors*

The Group's therapeutic products are being prescribed in more than 10,900 hospitals and medical providers, coupled with approximately 2,130 pharmaceutical stores, which are widely located in the major cities, provinces and county cities in the PRC.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year under review are set out in note 17 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised share capital during the year under review. Please refer to the sub-section headed "Purchase, Redemption or Sale of Listed Securities of the Company" for details of the share repurchase of the Company conducted during the year under review. For the year ended 31 December 2022, there was no exercise of share options (the "Options") granted under the Company's share option scheme as approved by the shareholders of the Company at the annual general meeting held on 3 May 2013 (the "Scheme"). Details of the Company's share capital and details of the Scheme are set out in notes 33 and 35 respectively to the financial statements.

*Summary of the Scheme*

1. Purpose of the Scheme:

   (a) To recognise and acknowledge the contributions that Eligible Participants (as defined below) have made or may make to the Group.

   (b) To provide the Eligible Participants (as defined below) with the opportunity of acquiring proprietary interests in the Company with the view to (1) motivate them to optimise their performance and efficiency for the benefit of the Group; and (2) attract and retain or otherwise maintain ongoing business relationship with them whose contributions are, will or expected to be beneficial to the Group.

2. Participants of the Scheme:

   (a) any director, officer, employee or officer employed by any company in the Group or by any member of the Group or a company in which the Group holds an interest or a subsidiary of such company (the "Affiliate") (whether full time or part time) (the "Employee"), consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to an Affiliate; or

   (b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate; or

   (c) a company beneficially owned by any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate (the "Eligible Participants").

   The basis of eligibility of any of the above classes of the Eligible Participants to the grant of any right(s) to subscribe for fully paid share(s) of HK$0.10 each of the Company (or such other nominal amount prevailing from time to time) (the "Share(s)") granted pursuant to this Scheme shall be determined by the Board from time to time on the basis of their contribution to the Group and/or the Affiliate(s) in line with the purposes of the Scheme.

3. (a) The maximum number of Shares in respect of which Options may be granted under the Scheme shall not, in aggregate, exceed 10% of the Shares in issue as at the date of approval of the Scheme, i.e. 55,675,000.

   (b) Number of Options available for grant under the Scheme as at 1 January 2022, 31 December 2022 and the date of this report is 25,375,000.

   (c) Number of Shares that may be issued in respect of the Options granted under the Scheme during the year under review (i.e. 1,000,000 Shares) divided by the weighted average number of Shares in issue for the year under review:

   0.17%.

   (d) Total number of ordinary shares of HK$0.10 each in the capital of the Company available for issue under the Scheme (excluding those to be issued upon exercise of the outstanding Options) as at the date of this report:

   25,375,000 Shares.

   (e) Percentage of the issued share capital that it represents as at the date of this report:

   4.44%.

4. Maximum entitlement of each Eligible Participant under the Scheme:

   Not to exceed 1% of the Shares in issue in any 12-month period unless approved by shareholders of the Company.

5. Period within which the Shares must be taken up under an Option:

   Within 10 years from the date on which the Option is offered or such shorter period as the Board may determine.

6. (a) Minimum period for which an Option must be held before it can be exercised:

   No minimum period unless otherwise determined by the Board.

   (b) Minimum period for which an Option must be vested:

   No minimum period unless otherwise determined by the Board.

7. (a) Price payable on application or acceptance of the Option:

   HK$1.00.

   (b) The period within which payments or calls must or may be made:

   14 days after the offer date of an Option.

   (c) The period within which loans for the purposes of the payments or calls must be repaid:

   Not applicable.

8. Basis of determining the exercise price:

   The exercise price shall be determined by the Board and notified to each grantee and shall not be less than the highest of:

   (a) the closing price of a Share as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant Option, which must be a business day;

   (b) an amount equivalent to the average closing price of a Share as stated in the daily quotations sheets of the Stock Exchange for the 5 business days immediately preceding the date of grant of the relevant Option; and

   (c) the nominal value of a Share.

9. The remaining life of the Scheme:

   Approximately 0.3 years (expiring on 2 May 2023).

10. Key information on the Options granted under the Scheme:

(1) As disclosed in the announcement of the Company dated 11 November 2016, 2,300,000 Options were granted to three eligible persons (one of which was appointed as an executive Director with effect from 19 September 2020) under the Scheme. Set out below are details of such Options granted on 11 November 2016:

(a) Exercise price of the Options granted: HK$5.90 per Share.

(b) Each grantee is entitled to exercise the Options in accordance with the following vesting periods and in the following manner:

(i) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2017 to 10 November 2021 (both dates inclusive);

(ii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 November 2017 to 10 November 2021 (both dates inclusive);

(iii) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2018 to 10 November 2021 (both dates inclusive);

(iv) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 November 2018 to 10 November 2021 (both dates inclusive); and

(v) up to 20% of the total number of Options granted to such grantee is exercisable during the period from 11 May 2019 to 10 November 2021 (both dates inclusive).

(c) All outstanding or unexercised Options granted to the grantees shall lapse after 10 November 2021.

(2) As disclosed in the announcement of the Company dated 1 November 2017, the Company entered into the service contract with Hong Kong Zhixin Financial News Agency Limited ("HK Zhixin") for the appointment of HK Zhixin as the Company's investor and media relations consultant. HK Zhixin shall act as the Company's investor and media relations consultant and shall provide to the Company certain services related to relations with investors and media for a term commencing on 1 November 2017 up to 31 October 2021 (both days inclusive). In consideration of the provision of the services by HK Zhixin to the Company, the Company shall grant an aggregate of 5,000,000 Options to HK Zhixin to subscribe for up to 5,000,000 Shares under the Scheme. Set out below are the details of such Options granted on 1 November 2017:

(a) The exercise price for:

(i) Options to subscribe for up to 1,700,000 Shares, representing 34% of the total number of Options granted, the exercise period of which is from 1 November 2018 to 31 October 2019 (both dates inclusive), will be HK$6.50 per Share;

(ii) Options to subscribe for up to 1,700,000 Shares, representing 34% of the total number of Options granted, the exercise period of which is from 1 November 2019 to 31 October 2020 (both dates inclusive), will be HK$7.50 per Share; and

(iii) Options to subscribe for up to 1,600,000 Shares, representing 32% of the total number of Options granted, the exercise period of which is from 1 November 2020 to 31 October 2021 (both dates inclusive), will be HK$8.50 per Share.

(b) HK Zhixin is entitled to exercise the Options in accordance with the following vesting periods and in the following manner:

(i) up to 34% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2018 to 31 October 2019 (both dates inclusive). The number of Options exercisable is 1,700,000 Options or 1,700,000 Options X the average number of Shares traded per day during the period from 1 November 2017 to 31 October 2018 (both days inclusive)/500,000, whichever is lower (Note 1);

*Note 1*: On 1 November 2018, the number of Options exercisable was determined to be 1,700,000 which were lapsed on 31 October 2019.

(ii) up to 34% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2019 to 31 October 2020 (both dates inclusive). The number of Options exercisable is 1,700,000 Options or 1,700,000 Options x the average number of Shares traded per day during the period from 1 November 2018 to 31 October 2019 (both days inclusive)/750,000, whichever is lower (Note 2); and

*Note 2:* On 1 November 2019, the number of Options exercisable was determined to be 1,085,507 which were lapsed on 31 October 2020.

(iii) up to 32% of the total number of Options granted to HK Zhixin is exercisable during the period from 1 November 2020 to 31 October 2021 (both dates inclusive). The number of Options exercisable is 1,600,000 Options or 1,600,000 Options x the average number of Shares traded per day during the period from 1 November 2019 to 31 October 2020 (both days inclusive)/1,000,000, whichever is lower (Note 3);

*Note 3:* On 1 November 2020, the number of Options exercisable was determined to be 765,537 which were lapsed on 31 October 2021.

the term "average number of Shares traded per day" means the total number of Shares traded on the trading days during the relevant period/the total number of trading days in the relevant period, and the number of Shares traded as set out on the website of the Stock Exchange shall be relied upon in respect of the number of Shares traded on each trading day.

(c) Each of the outstanding or unexercised Options granted to HK Zhixin shall lapse after the respective exercise periods. The vesting periods shall be subject to the provisions of the service contract of HK Zhixin in relation to early termination of the service contract.

(3) As disclosed in the announcement of the Company dated 27 June 2018, 1,000,000 Options were granted to an eligible person under the Scheme. Set out below are details of such Options granted on 27 June 2018:

(a) Exercise price of the Options granted: HK$10.00 per Share.

(b) The grantee is entitled to exercise the Options in accordance with the following vesting periods and in the following manner:

(i) up to 30% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2020 to 26 June 2023 (both dates inclusive);

(ii) up to 30% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2021 to 26 June 2023 (both dates inclusive); and

(iii) up to 40% of the total number of Options granted to such grantee is exercisable during the period from 27 June 2022 to 26 June 2023 (both dates inclusive).

(c) All outstanding or unexercised Options granted to the grantee shall lapse after 26 June 2023.

### *Details of Share Options Granted*

The following table discloses the movements in the Company's share options held by an employee of the Company during the year ended 31 December 2022:

| Participants | Date of grant | Exercise price HK$ | Vesting Period | Exercisable period | Outstanding as at 1 January 2022 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31 December 2022 |
|---|---|---|---|---|---|---|---|---|---|
| Employee | 27.06.2018 | 10.0 | 27.06.2018-26.06.2020 | 27.06.2020-26.06.2023 | 300,000 | 0 | 0 | 0 | 300,000 |
| | 27.06.2018 | 10.0 | 27.06.2018-26.06.2021 | 27.06.2021-26.06.2023 | 300,000 | 0 | 0 | 0 | 300,000 |
| | 27.06.2018 | 10.0 | 27.06.2018-26.06.2022 | 27.06.2022-26.06.2023 | 400,000 | 0 | 0 | 0 | 400,000 |
| **Total for the Scheme** | | | | | 1,000,000 | 0 | 0 | 0 | 1,000,000 |

During the year under review, no Option has been granted, cancelled or lapsed in accordance with the terms of the Scheme.

The valuation of share options is set out in note 35 to the financial statements.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient prescribed public float under the Listing Rules throughout the year under review and up to the date of this report.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under review, the Company repurchased 3,833,000 of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company as at the date of this report. The total amount paid for the repurchases of HK$14,186,650 was paid wholly out of retained profits of the Company. Details of those transactions are as follows:

| **Month** | **Number of shares repurchased** | **Price per share** | | **Total price paid** |
|---|---|---|---|---|
| | | **Highest** | **Lowest** | |
| | | HK$ | HK$ | HK$ |
| January 2022 | 393,000 | 5.15 | 4.72 | 1,927,420 |
| February 2022 | 88,000 | 5.16 | 4.90 | 441,220 |
| March 2022 | 102,000 | 4.35 | 4.08 | 423,910 |
| April 2022 | 118,000 | 4.35 | 4.09 | 491,540 |
| May 2022 | 278,000 | 3.87 | 3.26 | 986,920 |
| June 2022 | 519,000 | 4.01 | 3.36 | 1,912,240 |
| July 2022 | 987,000 | 3.94 | 3.61 | 3,643,160 |
| August 2022 | 33,000 | 3.98 | 3.67 | 123,530 |
| September 2022 | 30,000 | 4.10 | 4.05 | 122,200 |
| October 2022 | 476,000 | 3.35 | 2.96 | 1,484,110 |
| November 2022 | 747,000 | 3.48 | 3.10 | 2,420,800 |
| December 2022 | 62,000 | 3.86 | 3.27 | 209,600 |
| | 3,833,000 | | | 14,186,650 |

The repurchase of the Company's shares was effected by the Directors, pursuant to the mandate granted by the shareholders of the Company to the Directors at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

## EQUITY-LINKED AGREEMENTS

The Company has not entered into any equity-linked agreements during the year under review, other than (i) the Scheme as disclosed under the paragraph headed "Share Capital and Share Options" in this Report of the Directors and note 35 to the financial statements; and (ii) the convertible loan agreement entered into with International Finance Corporation ("IFC") on 6 July 2016 (together with the amendment agreement dated 10 July 2020, the "Convertible Loan Agreement"). Subject to the terms of the Convertible Loan Agreement, IFC has the right to convert all or any part of the outstanding principal amount of the convertible loan into 25,423,728 ordinary shares of the Company at a conversion price of HK$5.90 per share (subject to adjustments as set out in the Convertible Loan Agreement) at any time prior to the maturity date on 2 August 2024.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year under review are set out in note 34 to the financial statements and in the consolidated statement of changes in equity on page 59, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company has reserves of HK$13,879,479 available for distribution, calculated in accordance with the provisions of the Companies Act of the Cayman Islands as detailed in note 34 to the financial statements. Before the date of this report, subsidiaries of the Company had declared dividends to the Company and the Company's reserves available for distribution, calculated in accordance with the relevant provisions of the Companies Act of the Cayman Islands, amounted to HK$83,879,479 of which HK$14,290,075 has been proposed as a final dividend for the year under review.

## CHARITABLE DONATIONS

During the year under review, the Group made charitable donations amounting to approximately HK$983,000 (2021: approximately HK$757,000).

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for approximately 51.5% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 26.9% of the Group's total sales.

During the year under review, purchases from the Group's five largest suppliers accounted for approximately 48.4% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 17.2% of the Group's total purchases.

None of the Directors, or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

## DIRECTORS

The Directors during the year and up to the date of this report were:

### *Executive Directors:*

Ngiam Mia Je Patrick *(Chairman)*
Fang Haizhou *(Managing Director)*
Ngiam Hian Leng Malcolm *(Deputy Managing Director)*
Yau Lai Man

### *Independent non-executive Directors:*

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

In compliance with the Company's articles of association and as recommended by the nomination committee of the Company, Ngiam Hian Leng Malcolm, Yau Lai Man and Mauffrey Benoit Jean Marie will retire by rotation at the forthcoming annual general meeting of the Company to be held on Friday, 9 June 2023. Ngiam Hian Leng Malcolm and Yau Lai Man, being eligible, will offer themselves for re-election. Mauffrey Benoit Jean Marie will retire and will not offer himself for re-election as part of the Board's renewal process.

## DIRECTORS' SERVICE CONTRACTS

Each executive Director has entered into a service agreement with the Company.

Details of the appointments of the independent non-executive Directors are set out in the Corporate Governance Report on page 134 of this report.

Save as disclosed in note 11 to the financial statements, there were no other emoluments, pensions or any compensation arrangements for the Directors and past Directors which are required to be disclosed under the Listing Rules, or section 383 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) or the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

## PERMITTED INDEMNITY PROVISION

Article 164(1) of the Articles of Association of the Company provides, among other things, that the Directors and other officers shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may be attached to any of them. Such permitted indemnity provision is currently in force and was in force during the year ended 31 December 2022.

## DIRECTORS' OR CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There has been no transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with the Director or controlling shareholders of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year under review. There has also been no contract of significance for the provision of services to the Company or any of its subsidiaries by controlling shareholders of the Company or any of its subsidiaries during the year under review.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is implemented by the human resources department on the basis of their merit, qualifications, and competence and is reviewed by the executive Directors.

The Company has adopted the model whereby the remuneration committee of the Board (the "Remuneration Committee") makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors (if any).

In determining or recommending the remuneration packages of the Directors and senior management, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. In reviewing and approving performance-based remuneration, reference will be made by the Remuneration Committee to the Group's corporate goals and objectives resolved by the Board from time to time.

## REMUNERATION OF DIRECTORS AND FIVE HIGHEST-PAID EMPLOYEES

Details of the remuneration of Directors (on a named basis) and the five highest-paid employees are set out in notes 11 and 12 to the financial statements, respectively.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

### *Long positions in shares of the Company:*

| Name | Capacity | Number of ordinary shares/underlying shares of the Company | Approximate percentage of interest in the Company's issued share capital as at 31 December 2022 |
|---|---|---|---|
| Ngiam Mia Je Patrick | Beneficial owner and interests of controlled corporations | 153,945,667 (Note 1) | 26.93% |
| Fang Haizhou | Beneficial owner | 5,244,300 (Note 2) | 0.92% |
| Ngiam Hian Leng Malcolm | Beneficial owner | 2,039,000 (Note 3) | 0.36% |
| Yau Lai Man | Beneficial owner | 46,000 (Note 4) | 0.01% |

*Notes:*

1. (a) 147,279,000 ordinary shares were registered in the name of Ngiam Mia Je Patrick.

   (b) 6,666,667 ordinary shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which was wholly owned by Essex Investment (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares, Ngiam Mia Je Patrick was deemed to be interested in these shares under the SFO as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.

2. 5,244,300 ordinary shares were registered in the name of Fang Haizhou.

3. 2,039,000 ordinary shares were registered in the name of Ngiam Hian Leng Malcolm.

4. 46,000 ordinary shares were registered in the name of Yau Lai Man.

Save as disclosed above, as at 31 December 2022, none of the Directors and the chief executive of the Company had any interest and short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and the Scheme as disclosed under the paragraph headed "Share Capital and Share Options" above, at no time during the year under review were rights to acquire benefits by means of the acquisition of shares or underlying shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouses or minor children to acquire such rights in the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2022, the following persons or entities, other than a Director or chief executive of the Company had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

*Long positions in shares of the Company:*

| **Name** | **Capacity** | **Number of ordinary shares/underlying shares of the Company** | **Approximate percentage of interest in the Company's issued share capital as at 31 December 2022** |
|---|---|---|---|
| Ngiam Mia Kiat Benjamin | Beneficial owner and interests of controlled corporations | 152,020,667 (Note 1) | 26.60% |
| Lauw Hui Kian | Family interest | 153,945,667 (Note 2) | 26.93% |

*Notes:*

1. (a) 145,354,000 ordinary shares were registered in the name of Ngiam Mia Kiat Benjamin.

   (b) 6,666,667 ordinary shares were held by Dynatech which was wholly owned by Essex Singapore, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares. Therefore, Ngiam Mia Kiat Benjamin was deemed to be interested in these shares under the SFO as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.

2. Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in 153,945,667 shares in which Ngiam Mia Je Patrick was interested/deemed to be interested under the SFO.

Save as disclosed above, as at 31 December 2022, no other persons or entities (other than the Directors and chief executive of the Company whose interests are set out under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO.

## CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year under review are set out in note 43 to the financial statements. None of these related party transactions constitutes connected transaction or continuing connected transaction which is required to be disclosed under the Listing Rules. The Directors confirm that the Company has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year under review.

## COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the substantial shareholders of the Company and any of their respective close associates has engaged in any businesses that compete or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group during the year under review which are required to be disclosed under the Listing Rules.

## AUDITOR

BDO Limited will retire and a resolution for the re-appointment of auditor of the Company will be proposed at the forthcoming annual general meeting to be held on Friday, 9 June 2023.

## CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year under review. Please refer to the Corporate Governance Report on pages 133 to 145 of this report.

ON BEHALF OF THE BOARD

**Ngiam Mia Je Patrick**
*Chairman*

Hong Kong
8 March 2023

* For identification purpose only

# INDEPENDENT AUDITOR'S REPORT

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**To the Shareholders of Essex Bio-Technology Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of Essex Bio-Technology Limited (the "Company") and its subsidiaries (hereafter referred to as the "Group") set out on pages 57 to 131, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

### Recognition and subsequent measurement of other intangible assets

Refer to Notes 4(g), 5 and 21 to the consolidated financial statements.

Other intangible assets amounted to the net carrying value of approximately HK$978.7 million as at 31 December 2022, which comprised capitalised expenditure for development of biopharmaceutical products and acquired intangible assets. The Group capitalises eligible product development costs upon meeting the criteria of HKFRSs. Capitalisation criteria assessment requires significant judgement and measurement uncertainty at inception and throughout the lives of the individual projects. Judgements involved to determine the eligibility of the costs for capitalisation and the subsequent measurement requires detailed analysis. The Group's intangible assets are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and impairment losses.

## Our Response

Our audit procedures included, amongst others, the following:

(i) Assessing the eligibility of the development costs for capitalisation as intangible assets under HKFRSs by reviewing the design of the controls identified by the management surrounding the intangible assets capitalisation and subsequent measurement and for which we considered key, performing substantive test of details on the capitalised development costs. These procedures included on a sample basis testing underlying evidence related to hours registration and testing estimates of useful life; and

(ii) With the assistance of our own valuation specialists where appropriate, evaluating the assumptions and methodologies used by the Group to test the appropriateness of impairment assessment of the intangible assets in accordance with the relevant HKFRSs.

## Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Directors' Responsibilities for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**BDO Limited**
*Certified Public Accountants*

**Lam Siu Fung**
Practising Certificate Number: P05308

Hong Kong, 8 March 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

| | Notes | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|---|
| **Turnover** | 6 & 7 | **1,317,710,616** | 1,637,659,431 |
| Cost of sales | | **(128,381,601)** | (241,892,649) |
| **Gross profit** | | **1,189,329,015** | 1,395,766,782 |
| Other revenue, and other gains and losses | 8 | **(3,131,001)** | (2,374,656) |
| Distribution and selling expenses | | **(758,212,624)** | (835,953,964) |
| Administrative expenses | | **(155,976,579)** | (153,756,279) |
| Finance costs | 9 | **(11,472,207)** | (9,224,505) |
| Share of loss of an associate | | **(193,824)** | – |
| **Profit before income tax** | 10 | **260,342,780** | 394,457,378 |
| Income tax | 14 | **(34,931,470)** | (48,489,295) |
| **Profit for the year** | | **225,411,310** | 345,968,083 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of financial statements of foreign operations | | **(132,597,063)** | 49,647,277 |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Changes in fair value of equity instruments at fair value through other comprehensive income | | **(26,495,769)** | (29,110,034) |
| **Other comprehensive income for the year** | | **(159,092,832)** | 20,537,243 |
| **Total comprehensive income for the year** | | **66,318,478** | 366,505,326 |
| **Earnings per share attributable to owners of the Company** | | | |
| Basic | 16 | **HK39.27 cents** | HK60.00 cents |
| Diluted | 16 | **HK38.28 cents** | HK58.13 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

| | Notes | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | **398,835,074** | 347,159,223 |
| Right-of-use assets | 18(a) | **2,277,631** | 4,743,689 |
| Land use rights | 19 | **15,329,849** | 17,009,317 |
| Goodwill | 20 | **57,146,761** | 50,898,259 |
| Other intangible assets | 21 | **978,696,789** | 775,308,288 |
| Investment in an associate | | **2,630,850** | – |
| Convertible loan receivables | 22 | **10,545,317** | – |
| Financial assets at fair value through other comprehensive income | 23 | **23,218,349** | 50,160,757 |
| Financial assets at fair value through profit or loss | 23 | **2,060,452** | 6,415,583 |
| Deposits and prepayments | 26 | **7,677,656** | 64,352,538 |
| **Total non-current assets** | | **1,498,418,728** | 1,316,047,654 |
| **Current assets** | | | |
| Inventories | 24 | **83,658,808** | 97,573,756 |
| Trade and other receivables | 25 | **473,735,334** | 674,268,029 |
| Deposits and prepayments | 26 | **19,554,110** | 10,748,445 |
| Convertible loan receivables | 22 | **26,321,521** | 39,976,864 |
| Financial assets at fair value through profit or loss | 23 | **6,053** | 14,666 |
| Pledged bank deposits | 27 | **14,275,000** | 53,473,930 |
| Restricted cash | 27 | **52,941,562** | – |
| Cash and cash equivalents | 28 | **543,486,017** | 671,335,685 |
| **Total current assets** | | **1,213,978,405** | 1,547,391,375 |
| **Total assets** | | **2,712,397,133** | 2,863,439,029 |
| **Current liabilities** | | | |
| Trade and other payables | 29 | **416,325,907** | 468,762,578 |
| Bank borrowings | 30 | **105,045,225** | 153,366,235 |
| Lease liabilities | 18(b) | **2,567,651** | 2,548,672 |
| Current tax liabilities | | **36,977,985** | 64,907,899 |
| **Total current liabilities** | | **560,916,768** | 689,585,384 |
| **Net current assets** | | **653,061,637** | 857,805,991 |
| **Total assets less current liabilities** | | **2,151,480,365** | 2,173,853,645 |
| **Non-current liabilities** | | | |
| Bank borrowings | 30 | **224,405,892** | 263,416,760 |
| Lease liabilities | 18(b) | **–** | 2,780,815 |
| Convertible loan payable | 31 | **157,715,217** | 143,072,711 |
| Deferred tax liabilities | 32 | **37,992,451** | 30,306,066 |
| **Total non-current liabilities** | | **420,113,560** | 439,576,352 |
| **Total liabilities** | | **981,030,328** | 1,129,161,736 |
| **NET ASSETS** | | **1,731,366,805** | 1,734,277,293 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 33 | **57,160,300** | 57,555,800 |
| Reserves | | **1,674,206,505** | 1,676,721,493 |
| **TOTAL EQUITY** | | **1,731,366,805** | 1,734,277,293 |

On behalf of the Board

**Fang Haizhou**

**Yau Lai Man**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

| | Equity attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital<br>HK$<br>Note 33 | Share premium<br>HK$ | Capital reserve<br>HK$<br>Note 34(i) | Statutory surplus reserve<br>HK$<br>Note 34(ii) | Foreign currency translation reserve<br>HK$<br>Note 34(iii) | Share option reserve<br>HK$<br>Note 35 | Fair value through other comprehensive income reserve<br>HK$<br>Note 23 | Fair value reserve<br>HK$ | Conversion component of convertible loan payable<br>HK$<br>Note 31 | Retained earnings<br>HK$ | Total<br>HK$ |
| **At 1 January 2021** | **57,690,300** | **71,106,224** | **362,442** | **90,682,921** | **24,536,045** | **4,534,382** | **(31,266,258)** | **18,095,900** | **15,227,318** | **1,175,221,560** | **1,426,190,834** |
| Profit for the year | – | – | – | – | – | – | – | – | – | 345,968,083 | 345,968,083 |
| Other comprehensive income: | | | | | | | | | | | |
| – Changes in fair value of equity instruments at fair value through other comprehensive income | – | – | – | – | – | – | (29,110,034) | – | – | – | (29,110,034) |
| – Exchange differences on translation of financial statements of foreign operations | – | – | – | – | 49,647,277 | – | – | – | – | – | 49,647,277 |
| Total comprehensive income for the year | – | – | – | – | 49,647,277 | – | (29,110,034) | – | – | 345,968,083 | 366,505,326 |
| 2020 final dividend paid | – | – | – | – | – | – | – | – | – | (28,824,050) | (28,824,050) |
| 2021 interim dividend paid | – | – | – | – | – | – | – | – | – | (23,065,200) | (23,065,200) |
| Exercise of share options | 32,000 | 2,189,513 | – | – | – | (333,513) | – | – | – | – | 1,888,000 |
| Equity-settled share-based payments | – | – | – | – | – | 264,493 | – | – | – | – | 264,493 |
| Shares repurchased and cancelled | (166,500) | (2,900) | – | – | – | – | – | – | – | (8,512,710) | (8,682,110) |
| Transfer of share option reserve upon the forfeiture or expiry of share options | – | – | – | – | – | (2,784,111) | – | – | – | 2,784,111 | – |
| **At 31 December 2021 and 1 January 2022** | **57,555,800** | **73,292,837** | **362,442** | **90,682,921** | **74,183,322** | **1,681,251** | **(60,376,292)** | **18,095,900** | **15,227,318** | **1,463,571,794** | **1,734,277,293** |
| Profit for the year | – | – | – | – | – | – | – | – | – | 225,411,310 | 225,411,310 |
| Other comprehensive income: | | | | | | | | | | | |
| – Changes in fair value of equity instruments at fair value through other comprehensive income | – | – | – | – | – | – | (26,495,769) | – | – | – | (26,495,769) |
| – Exchange differences on translation of financial statements of foreign operations | – | – | – | – | (132,597,063) | – | – | – | – | – | (132,597,063) |
| Total comprehensive income for the year | – | – | – | – | (132,597,063) | – | (26,495,769) | – | – | 225,411,310 | 66,318,478 |
| 2021 final dividend paid | – | – | – | – | – | – | – | – | – | (31,610,425) | (31,610,425) |
| 2022 interim dividend paid | – | – | – | – | – | – | – | – | – | (22,915,520) | (22,915,520) |
| Equity-settled share-based payments | – | – | – | – | – | 87,049 | – | – | – | – | 87,049 |
| Shares repurchased and cancelled | (395,500) | (6,889) | – | – | – | – | – | – | – | (14,387,681) | (14,790,070) |
| **At 31 December 2022** | **57,160,300** | **73,285,948** | **362,442** | **90,682,921** | **(58,413,741)** | **1,768,300** | **(86,872,061)** | **18,095,900** | **15,227,318** | **1,620,069,478** | **1,731,366,805** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

| | Notes | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **260,342,780** | 394,457,378 |
| Adjustments for: | | | |
| Interest income from convertible loan receivables | 8 | **(2,112,179)** | (3,439,351) |
| Interest income from bank deposits | 8 | **(6,765,530)** | (6,421,640) |
| Change in fair value of financial assets at fair value through profit or loss | 8 | **4,757,302** | 31,895,184 |
| Gain on settlement of financial instruments | 8 | **(11,530,410)** | – |
| Impairment loss on goodwill | 8 | **25,830,139** | – |
| Impairment loss on other intangible assets | 8 | **13,011,953** | – |
| Finance costs | 9 | **11,472,207** | 9,224,505 |
| Share of loss of an associate | | **193,824** | – |
| Amortisation of land use rights | 10 | **386,107** | 399,781 |
| Amortisation of other intangible assets | 10 | **15,383,511** | 11,139,787 |
| Depreciation of property, plant and equipment | 10 | **23,982,180** | 19,193,312 |
| Depreciation of right-of-use assets | 10 | **2,161,139** | 2,237,673 |
| Equity-settled share-based payments | 10 | **87,049** | 264,493 |
| Exchange gains, net | 10 | **(2,169,543)** | (2,910,421) |
| Loss on disposal of property, plant and equipment | 10 | **285,676** | 278,279 |
| Write-off of inventories | 10 | **4,154,365** | 3,665,473 |
| **Operating cash flows before working capital changes** | | **339,470,570** | 459,984,453 |
| Decrease in inventories | | **9,493,152** | 8,684,273 |
| Decrease/(increase) in trade and other receivables | | **200,638,683** | (169,165,555) |
| (Increase)/decrease in deposits and prepayments | | **(12,057,207)** | 19,555,857 |
| (Decrease)/increase in trade and other payables | | **(105,558,320)** | 80,577,020 |
| **Cash generated from operations** | | **431,986,878** | 399,636,048 |
| Tax (paid)/refunded | | **(49,201,219)** | 9,525,352 |
| **Net cash generated from operating activities** | | **382,785,659** | 409,161,400 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | **(81,636,224)** | (79,683,924) |
| Deposits paid for acquisition of property, plant and equipment | | **(7,857,260)** | (10,362,164) |
| Increase in other intangible assets | | **(193,419,195)** | (164,849,512) |
| Purchase of a shareholding in an associate | | **(2,898,139)** | – |
| Purchase of convertible loan receivables | | **(9,910,806)** | (16,306,553) |
| Purchase of financial assets at fair value through profit or loss | | **(146,998)** | (2,935,737) |
| Acquisition of subsidiaries | | **3,471,720** | 31,556 |
| Bank interest received | | **6,765,530** | 6,421,640 |
| Interest received from convertible loan receivables | | **–** | 374,799 |
| Decrease/(increase) in pledged bank deposits | | **37,960,274** | (12,903,700) |
| Increase in restricted cash | | **(54,419,932)** | – |
| Proceeds from disposal of property, plant and equipment | | **60,535** | 129,174 |
| **Net cash used in investing activities** | | **(302,030,495)** | (280,084,421) |

| | 2022 HK$ | 2021 HK$ |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from bank borrowings | – | 55,449,698 |
| Repayments of bank borrowings | **(81,597,430)** | (55,125,000) |
| Payments of lease liabilities | **(2,525,962)** | (2,467,374) |
| Proceeds from shares issued under share option scheme | – | 1,888,000 |
| Payments for shares bought back | **(14,790,070)** | (8,682,110) |
| Interest paid on bank borrowings | **(12,781,480)** | (9,416,397) |
| Interest paid on convertible loan payable | **(2,889,583)** | (2,889,583) |
| Dividends paid to owners of the Company | **(54,525,945)** | (51,889,250) |
| **Net cash used in financing activities** | **(169,110,470)** | (73,132,016) |
| Net (decrease)/increase in cash and cash equivalents | **(88,355,306)** | 55,944,963 |
| Cash and cash equivalents at beginning of year | **671,335,685** | 599,781,645 |
| Effect of exchange rate changes on cash and cash equivalents | **(39,494,362)** | 15,609,077 |
| **Cash and cash equivalents at end of year** | **543,486,017** | 671,335,685 |
| **Analysis of balances of cash and cash equivalents** | | |
| Cash and bank balances | **451,383,696** | 671,335,685 |
| Non-pledged time deposits with original maturity of less than three months when acquired | **92,102,321** | – |
| Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows | **543,486,017** | 671,335,685 |

**Non-cash transactions**

During the year ended 31 December 2022, additions of property, plant and equipment and other intangible assets of HK$20,308,096 (2021: HK$2,497,912) and HK$40,736,896 (2021: Nil) respectively were transferred from deposits and prepayments.

## 1. General

Essex Bio-Technology Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 31 July 2000 under Companies Act Chapter 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock code: 1061). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in investment holding, and development, manufacture and sale of biologic drugs in the People's Republic of China (the "PRC").

## 2. Basis of Preparation

### (a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### (b) *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values. The measurement bases are fully described in the accounting policies set out in note 4 below.

### (c) *Functional and presentation currency*

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

## 3. Adoption of HKFRSs

### (a) *Adoption of revised HKFRSs with effect from 1 January 2022*

*Amendments to HKFRS 3 – Reference to the Conceptual Framework*

Minor amendments were made to HKFRS 3 *Business Combinations* to update the references to the *Conceptual Framework for Financial Reporting* and to add an exception for the recognition of liabilities and contingent liabilities within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 21 *Levies*. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

The adoption of these amendments in the current year has no material impact on the Group's financial statements.

*Amendments to HKFRS 16 – Proceeds before Intended Use*

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The amendments also clarify that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

The adoption of these amendments in the current year has no material impact on the Group's financial statements.

*Amendments to HKAS 37 – Onerous Contracts: Costs of Fulfilling a Contract*

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

The adoption of these amendments in the current year has no material impact on the Group's financial statements.

*Annual Improvements to HKFRSs 2018-2020 Cycle – Amendments to HKFRS 9, Financial Instruments*

The amendments clarify which fees should be included in the 10% test for derecognition of financial liabilities.

The adoption of these amendments in the current year has no material impact on the Group's financial statements.

## 3. Adoption of HKFRSs *(Continued)*

### *(b) Revised HKFRSs that have been issued but are not yet effective*

The following revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

| | |
|---|---|
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[1] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[1] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current[2] |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants[2] |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

*Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies*

The amendments to HKAS 1 require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. The amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide guidance on how to apply the concept of materiality to accounting policy disclosures.

*Amendments to HKAS 8 – Definition of Accounting Estimates*

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

## 3. Adoption of HKFRSs *(Continued)*

### (b) *Revised HKFRSs that have been issued but are not yet effective (Continued)*

*Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations, and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with right-of-use assets and lease liabilities, and decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets. The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

*Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current*

The narrow-scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what HKAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

*Amendments to HKAS 1 – Non-current Liabilities with Covenants*

The amendments deal with the classification of long-term loan arrangements with covenants by specifying that covenants to be complied with after the reporting date do not affect the classification of loan arrangements as current or non-current at the reporting date.

*Amendments to HKFRS 16 – Lease liability in a Sale and Leaseback*

The amendments add subsequent measurement requirements for a sale and leaseback transaction, where the transfer of the asset satisfies the requirements in HKFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale.

## 3. Adoption of HKFRSs *(Continued)*

### *(b) Revised HKFRSs that have been issued but are not yet effective (Continued)*

*Amendments to HKFRS 10 and HKAS 28 (2011) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group has already commenced an assessment of the impact of adopting the above amendments to existing standards to the Group. The Group has so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

## 4. Significant Accounting Policies

### *(a) Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

### *(b) Subsidiaries*

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

### *(c) Associates*

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interests in the associates are not recognised unless there is an obligation to make good those losses.

## 4. Significant Accounting Policies *(Continued)*

### (c) *Associates (Continued)*

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associates. The investor's share in the associates' profits and losses resulting from these transactions is eliminated against the carrying value of the associates. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

### (d) *Business combination and goodwill*

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition-date fair value which is the sum of the acquisition-date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interests in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceeds the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after reassessment.

## 4. Significant Accounting Policies *(Continued)*

### *(d) Business combination and goodwill (Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to the amount below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

### *(e) Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment, other than construction in progress, are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The annual rates are as follows:

| | |
|---|---|
| Buildings and leasehold improvements | 2%-20% or the remaining lease period whichever is shorter |
| Plant and machinery | 9%-18% |
| Furniture, fixtures and equipment | 10%-33% |
| Motor vehicles | 10%-20% |

## 4. Significant Accounting Policies *(Continued)*

### *(e) Property, plant and equipment (Continued)*

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

### *(f) Leases*

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold buildings | 5 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Land use rights represent payments for leasehold land held for own use under operating leases. The Group made up-front payments to obtain land use rights as operating leases on which properties are developed. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as expense.

## 4. Significant Accounting Policies *(Continued)*

### *(f) Leases (Continued)*

*Group as a lessee (Continued)*

(ii) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

*Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the rewards and risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

## 4. Significant Accounting Policies *(Continued)*

### *(g) Intangible assets*

*(i) Acquired intangible assets*

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on unit-of-production method or straight-line basis over their useful lives, where appropriate. The amortisation expense is recognised in profit or loss.

| | |
|---|---|
| Distribution rights and development costs amortised under straight-line method | 5-25 years |

*(ii) Research and development expenditure*

Expenditure on internally developed products is capitalised if it can be demonstrated that:

1. it is technically feasible to develop the product for it to be sold;
2. adequate resources are available to complete the development;
3. there is an intention to complete and sell the product;
4. the Group is able to sell the product;
5. sale of the product will generate future economic benefits; and
6. expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss.

| | |
|---|---|
| Capitalised development expenditure amortised under license period | 5-10 years |

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

*(iii) Impairment*

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets that are not yet available for use are tested for impairment at least annually.

## 4. Significant Accounting Policies *(Continued)*

### *(h) Financial instruments*

#### *(i) Financial assets*

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVTOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Debt investments at FVTOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

## 4. Significant Accounting Policies *(Continued)*

### *(h) Financial instruments (Continued)*

#### *(i) Financial assets (Continued)*

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVTOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

#### *(ii) Impairment loss on financial assets*

The Group recognises loss allowances for expected credit losses ("ECLs") on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVTOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12 months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

## 4. Significant Accounting Policies *(Continued)*

### (h) *Financial instruments (Continued)*

#### (ii) *Impairment loss on financial assets (Continued)*

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 to 90 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 to 180 days past due, depending on credit worth of customers.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

#### (iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

## 4. Significant Accounting Policies *(Continued)*

### *(h) Financial instruments (Continued)*

#### *(iii) Financial liabilities (Continued)*

Financial liabilities at FVTPL *(Continued)*

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, bank borrowings and the debt component of convertible loan issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

#### *(iv) Convertible loan payable*

Convertible loan payable issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan into equity, is included in equity (conversion component of convertible loan payable).

In subsequent periods, the liability component of the convertible loan payable is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in conversion component of convertible loan payable until the embedded option is exercised (in which case the balance stated in conversion component of convertible loan payable will be transferred to share capital and share premium. Where the option remains unexercised at the expiry dates, the balance stated in conversion component of convertible loan payable will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

## 4. Significant Accounting Policies *(Continued)*

### *(h) Financial instruments (Continued)*

*(iv) Convertible loan payable (Continued)*

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

*(v) Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

*(vi) Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*(vii) Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

### *(i) Inventories*

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 4. Significant Accounting Policies *(Continued)*

### *(j) Revenue recognition*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

*(i) Development, manufacture and sale of biologic drugs*

Customers obtain control of the biologic drugs when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 90 days.

The Group's contracts with customers from the sale of product provides customers a right of return (a right to exchange another product or to be refunded in cash). The right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. The directors of the Company (the "Directors") considered that the financial impact of the returned goods is minimal, with reference to the historical returned goods pattern and the management assessment of possible return of goods.

*(ii) Provision of marketing services*

The Group provides pharmaceutical product marketing services to various manufacturers. Revenue from marketing services is recognised at a point in time when those services are provided. Invoices are usually payable within 90 days.

## 4. Significant Accounting Policies *(Continued)*

### *(j) Revenue recognition (Continued)*

#### *(iii) Other income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### *(k) Income taxes*

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

### *(l) Foreign currency*

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the functional currency) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

## 4. Significant Accounting Policies *(Continued)*

### *(l) Foreign currency (Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

### *(m) Employee benefits*

*Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

*Defined contribution retirement plan*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

*Termination benefits*

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

## 4. Significant Accounting Policies *(Continued)*

### *(n) Impairment of other assets (other than financial assets)*

At the end of each reporting period, the Group reviews the carrying amounts of other assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the higher of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash-generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

### *(o) Share-based payment*

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

### *(p) Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

## 4. Significant Accounting Policies *(Continued)*

### *(p) Provisions and contingent liabilities (Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### *(q) Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### *(r) Related parties*

(i) A person or a close member of that person's family is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of key management personnel of the Group or the Company's parent.

(ii) An entity is related to the Group if any of the following conditions apply:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

## 4. Significant Accounting Policies *(Continued)*

### *(r) Related parties (Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

### *(s) Capitalisation of borrowing costs*

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### *(t) Government grants*

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows:

### *(a) Research and development costs*

In accordance with the accounting policy set out in note 4, costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as other intangible assets provided they meet all the requirements. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research, findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement, and assumptions regarding the expected progress and outcome of the research and development activities, the future expected cash generation of the assets, discount rates to be applied, and also the expected period of, probable future economic benefits.

### *(b) Impairment of trade and other receivables*

The Group makes allowance for impairment on trade and other receivables based on assumptions about risk of default and ECL rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of the reporting period.

### *(c) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the end of each reporting period.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

### (d) *Impairment of non-financial assets*

Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable, except that intangible assets that are not yet available for use and goodwill are tested for impairment at least annually. The Group assesses whether there are any indicators of impairment for all applicable non-financial assets at the end of each reporting period. An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

### (e) *Valuation of share options granted*

The fair value of share options granted was calculated using Binominal option pricing model valuation model based on the Group management's significant inputs into calculation including an estimated life of share options granted based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted.

### (f) *Income taxes*

The Group is subject to income taxes in different jurisdictions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### (g) *Fair value measurement*

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

### *(g) Fair value measurement (Continued)*

*(i) Financial instruments measured at fair value*

As at the end of the reporting period, convertible loan receivables and equity investments included in the consolidated financial statements require measurement at, and disclosure of, fair value.

The fair value of financial instruments with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the relationship between key unobservable inputs and fair value are set out in notes (iii) and (iv) below.

*(ii) Financial instruments not measured at fair value*

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, pledged bank deposits, restricted cash, trade and other payables, bank borrowings, lease liabilities and convertible loan payable.

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables and current portion of pledged bank deposits, bank borrowings and lease liabilities approximate to their fair values due to the short term maturities of these instruments.

The fair values of non-current portion of bank borrowings, lease liabilities and convertible loan payable for disclosure purposes have been determined using discounted cash flow models and are classified as level 3 in the fair value hierarchy. Significant inputs include the discount rate used to reflect the credit risks of the borrowers or the Company.

*(iii) Information about level 2 fair value measurement*

The fair values of the financial instruments included in the level 2 category have been determined with reference to generally accepted pricing models based on quoted prices for identical or similar assets or liabilities in markets that are not active.

*(iv) Information about level 3 fair value measurement*

The fair values of the financial instruments included in the level 3 category as at the end of the current year have been determined by the Directors with reference to the valuation performed by International Valuation Limited, an independent firm of professionally qualified valuers, details of which are set out in notes 22 and 23.

## 5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty *(Continued)*

### (g) *Fair value measurement (Continued)*

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

| **Recurring fair value measurement Financial assets:** | **As at 31 December 2022** | | | |
|---|---|---|---|---|
| | **Level 1 HK$** | **Level 2 HK$** | **Level 3 HK$** | **Total HK$** |
| Listed equity investments | **11,474,465** | **–** | **–** | **11,474,465** |
| Unlisted equity investments | **–** | **12,826,207** | **984,182** | **13,810,389** |
| Convertible loan receivables | **–** | **–** | **36,866,838** | **36,866,838** |

| Recurring fair value measurement Financial assets: | As at 31 December 2021 | | | |
|---|---|---|---|---|
| | Level 1 HK$ | Level 2 HK$ | Level 3 HK$ | Total HK$ |
| Listed equity investments | 31,139,784 | – | – | 31,139,784 |
| Unlisted equity investments | – | 17,211,640 | 8,239,582 | 25,451,222 |
| Convertible loan receivables | – | – | 39,976,864 | 39,976,864 |

There was no transfer under the fair value hierarchy classification during the years ended 31 December 2022 and 2021.

## 6. Segment Reporting

The Group manages its businesses by business lines. The segment information is reported internally to the chief operating decision-maker (i.e. executive Directors) for the purposes of resources allocation and performance assessment. The Group's reportable and operating segments for financial reporting purposes are as follows:

– Ophthalmology

– Surgical

## 6. Segment Reporting *(Continued)*

### *(a) Reportable segments*

The chief operating decision-maker monitors the results of its business units separately for the purpose of making decision about resources allocation and performance assessment. Segment performance is evaluated based on the results from the reportable segments as explained in the table below.

**For the year ended 31 December 2022**

| | **Ophthalmology HK$** | **Surgical HK$** | **Total HK$** |
|---|---|---|---|
| **Reportable segment revenue** | | | |
| – Revenue from external customers | **553,557,583** | **764,153,033** | **1,317,710,616** |
| **Reportable segment profit** | **159,844,796** | **191,454,883** | **351,299,679** |

For the year ended 31 December 2021

| | Ophthalmology HK$ | Surgical HK$ | Total HK$ |
|---|---|---|---|
| Reportable segment revenue | | | |
| – Revenue from external customers | 673,265,311 | 964,394,120 | 1,637,659,431 |
| Reportable segment profit | 214,848,770 | 273,732,972 | 488,581,742 |

The totals presented for the Group's operating segments were reconciled to the Group's key financial figures as presented in the consolidated financial statements as follows:

| | **2022 HK$** | 2021 HK$ |
|---|---|---|
| Reportable segment profit | **351,299,679** | 488,581,742 |
| Unallocated corporate income and expenses, net | **(48,810,202)** | (52,740,182) |
| Change in fair value of financial assets at FVTPL | **(4,757,302)** | (31,895,184) |
| Impairment loss on goodwill | **(25,830,139)** | – |
| Equity-settled share-based payments | **(87,049)** | (264,493) |
| Finance costs | **(11,472,207)** | (9,224,505) |
| Profit before income tax | **260,342,780** | 394,457,378 |

Major corporate expenses comprised mainly the staff costs including Directors' emoluments.

Analysis of segment assets and liabilities has not been presented as the measure of segment assets and liabilities is not regularly provided to the executive Directors.

## 6. Segment Reporting *(Continued)*

### *(b) Geographical information*

*(i) Revenue from external customers*

For the years ended 31 December 2022 and 2021, the Group's revenue from external customers is derived solely from its operations in the PRC.

*(ii) Non-current assets*

| | **2022**<br>**HK$** | 2021<br>HK$ |
|---|---:|---:|
| PRC | **1,205,074,379** | 1,031,973,286 |
| Hong Kong | **232,738,141** | 176,658,093 |
| Overseas | **24,782,090** | 50,839,935 |
| | **1,462,594,610** | 1,259,471,314 |

The non-current assets information above excludes convertible loan receivables, financial assets at FVTOCI and financial assets at FVTPL, and is based on the physical locations of the respective assets, except for goodwill and other intangible assets of which is based on the areas of the group entities' operations.

### *(c) Information about major customers*

For the year ended 31 December 2022, revenue of HK$354,935,984 and HK$141,967,969 (2021: HK$397,223,554) was derived from the sales to two customers (2021: one customer), which individually accounted for over 10% of the Group's total revenue.

## 7. Turnover

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax, commercial discounts and sales returns), further details of which are set out in note 6.

## 8. Other Revenue, and Other Gains and Losses

| | 2022 HK$ | 2021 HK$ |
|---|---|---|
| Change in fair value of financial assets at FVTPL | **(4,757,302)** | (31,895,184) |
| Licensing income | **1,358,811** | 5,627,730 |
| Interest income from convertible loan receivables | **2,112,179** | 3,439,351 |
| Government grants (Note) | **6,316,822** | 6,824,100 |
| Interest income from bank deposits | **6,765,530** | 6,421,640 |
| Gain on settlement of financial instruments | **11,530,410** | – |
| Impairment loss on goodwill (Note 20) | **(25,830,139)** | – |
| Impairment loss on other intangible assets (Note 21) | **(13,011,953)** | – |
| Sundry income | **12,384,641** | 7,207,707 |
| | **(3,131,001)** | (2,374,656) |

*Note:*

These government grants were received for the purpose of supporting the development of new pharmaceutical products, and there were no conditions to be fulfilled or contingencies relating to these grants.

## 9. Finance Costs

| | 2022 HK$ | 2021 HK$ |
|---|---|---|
| Interest expense on bank borrowings | **12,781,480** | 9,416,397 |
| Interest expense on lease liabilities | **106,944** | 175,971 |
| Imputed interest expense on convertible loan payable | **17,532,089** | 5,433,238 |
| Less: Amount capitalised | **(18,948,306)** | (5,801,101) |
| | **11,472,207** | 9,224,505 |

## 10. Profit Before Income Tax

This is arrived at after charging/(crediting):

| | **2022** **HK$** | 2021 HK$ |
|---|---|---|
| Amortisation of land use rights | **386,107** | 399,781 |
| Amortisation of other intangible assets | **15,383,511** | 11,139,787 |
| Auditor's remuneration | **1,358,200** | 1,346,733 |
| Cost of inventories | **115,850,893** | 153,550,410 |
| Cost of services | **8,376,343** | 84,676,766 |
| Depreciation of property, plant and equipment | **23,982,180** | 19,193,312 |
| Depreciation of right-of-use assets | **2,161,139** | 2,237,673 |
| Employee costs excluding Directors' emoluments: | | |
| – Salaries and other benefits | **280,068,091** | 285,685,170 |
| – Pension fund contributions | **15,389,251** | 11,734,910 |
| – Equity-settled share-based payments to the employees (Note 35(a)) | **87,049** | 264,493 |
| Exchange gains, net | **(2,169,543)** | (2,910,421) |
| Write-off of inventories | **4,154,365** | 3,665,473 |
| Loss on disposal of property, plant and equipment | **285,676** | 278,279 |
| Research and development costs recognised as expenses | **23,507,775** | 23,522,567 |

## 11. Directors' Emoluments

| | Executive Directors | | | | Independent Non-executive Directors | | | |
|---|---|---|---|---|---|---|---|---|
| | Fang Haizhou HK$ | Ngiam Hian Leng Malcolm HK$ | Yau Lai Man HK$ | Ngiam Mia Je Patrick HK$ | Fung Chi Ying HK$ | Mauffrey Benoit Jean Marie HK$ | Yeow Mee Mooi HK$ | Total HK$ |
| **For the year ended 31 December 2022:** | | | | | | | | |
| Fee | – | – | – | – | 250,000 | 220,000 | 220,000 | 690,000 |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | 1,786,210 | 1,513,085 | 996,600 | 2,909,778 | – | – | – | 7,205,673 |
| Pension fund contributions | 41,884 | – | 16,500 | – | – | – | – | 58,384 |
| Discretionary bonuses (Note) | 80,000 | 200,000 | 160,000 | 200,000 | – | – | – | 640,000 |
| Total emoluments | 1,908,094 | 1,713,085 | 1,173,100 | 3,109,778 | 250,000 | 220,000 | 220,000 | 8,594,057 |
| For the year ended 31 December 2021: | | | | | | | | |
| Fee | – | – | – | – | 250,000 | 220,000 | 220,000 | 690,000 |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | 1,845,517 | 1,566,669 | 1,662,450 | 3,012,825 | – | – | – | 8,087,461 |
| Pension fund contributions | 25,379 | – | 13,500 | – | – | – | – | 38,879 |
| Discretionary bonuses (Note) | 100,000 | 250,000 | 200,000 | 250,000 | – | – | – | 800,000 |
| Total emoluments | 1,970,896 | 1,816,669 | 1,875,950 | 3,262,825 | 250,000 | 220,000 | 220,000 | 9,616,340 |

*Note:*

The performance related incentive payment is at the discretion of the Directors depending on the financial performance of the Group.

For the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a Director waived or agreed to waive any remuneration for the years ended 31 December 2022 and 2021.

## 12. Five Highest Paid Individuals and Senior Management

Of the five individuals with the highest pay in the Group, four (2021: four) were Directors whose emoluments are included in note 11 above. The emoluments of the remaining one individual (2021: one individual) were as follows:

| | **2022 HK$** | 2021 HK$ |
|---|---|---|
| Salaries and other benefits | **1,882,097** | 2,196,534 |
| Pension fund contributions | **118,505** | 117,493 |
| Equity-settled share-based payments | **87,049** | 264,493 |
| | **2,087,651** | 2,578,520 |

Their emoluments were within the following bands:

| | **2022 Number of employees** | 2021 Number of employees |
|---|---|---|
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| HK$2,500,001 to HK$3,000,000 | **–** | 1 |

For the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to the highest paid, non-director individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

For the year ended 31 December 2022, the emoluments were paid to two (2021: two) members of the senior management (other than the Directors) which fell within the band of HK$500,001 to HK$1,000,000 and HK$2,000,001 to HK$2,500,000 (2021: HK$1,000,001 to HK$1,500,000 and HK$2,500,001 to HK$3,000,000), respectively.

## 13. Retirement Benefits

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government, or in the case of the employees in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute a certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The Group's contribution to retirement benefits schemes for the year ended 31 December 2022 amounted to HK$15,447,635 (2021: HK$11,773,789).

## 14. Income Tax

Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

| | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|
| Current tax – the PRC | | |
| – Provision for the year | **16,203,050** | 47,352,524 |
| – Underprovision/(overprovision) in the prior year (Note) | **448,084** | (9,996,517) |
| Deferred tax (Note 32) | **18,280,336** | 11,133,288 |
| | **34,931,470** | 48,489,295 |

*Note:*

The amount for the year ended 31 December 2021 represented the tax deduction for expenditures approved by the tax authority in 2021.

No provision for Hong Kong profits tax has been made as the Group has no assessable profit arising in Hong Kong.

The Group's major operating subsidiary in Zhuhai, the PRC, was established and carries on business in the Special Economic Zones of the PRC as a high technology enterprise. This subsidiary has obtained a 高新技術企業證書 (High Technology Enterprise Certificate) and is entitled to enjoy the enterprise income tax at the concessionary rate of 15% for the years ended 31 December 2022 and 2021.

Enterprise income tax rate of 25%, 17%, 27.3% and 22% is applied to the Group's other operating subsidiaries in the PRC, Singapore, the United States and Indonesia respectively.

Income tax for the year can be reconciled to the profit before income tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|
| Profit before income tax | **260,342,780** | 394,457,378 |
| Tax calculated at Hong Kong profits tax rate of 16.5% (2021: 16.5%) | **42,956,559** | 65,085,467 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(3,039,205)** | (5,885,019) |
| Tax effect of expenses not deductible for tax purposes | **16,231,036** | 19,980,766 |
| Tax effect of revenue not taxable for tax purposes | **(966,245)** | (1,106,658) |
| Tax benefits | **(28,008,174)** | (29,079,707) |
| Tax losses not recognised | **2,495,833** | 2,123,687 |
| Underprovision/(overprovision) in the prior year | **448,084** | (9,996,517) |
| Withholding tax arising from distributable profits of a subsidiary in the PRC | **3,600,000** | 6,128,042 |
| Others | **1,213,582** | 1,239,234 |
| Income tax | **34,931,470** | 48,489,295 |

## 15. Dividends

| | 2022 HK$ | 2021 HK$ |
|---|---|---|
| Interim dividend – HK$0.04 (2021: HK$0.04) per share | **22,915,520** | 23,065,200 |
| Proposed final dividend – HK$0.025 (2021: HK$0.055) per share | **14,290,075** | 31,610,425 |
| | **37,205,595** | 54,675,625 |

The Directors propose a final dividend of HK$0.025 (2021: HK$0.055) per ordinary share to be paid. The amount of proposed final dividend is based on the number of issued ordinary shares as at the end of the reporting period. This proposed dividend is not reflected as dividend payable as at the end of the reporting period but will be reflected as an appropriation of retained earnings for the year ending 31 December 2023.

## 16. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

**Earnings**

| | 2022 HK$ | 2021 HK$ |
|---|---|---|
| Profit attributable to owners of the Company for the purposes of calculating basic earnings per share | **225,411,310** | 345,968,083 |
| Interest expense on convertible loan payable, net of amount capitalised | **4,047,963** | 3,975,631 |
| Profit attributable to owners of the Company for the purposes of calculating diluted earnings per share | **229,459,273** | 349,943,714 |

**Number of shares**

| | 2022 | 2021 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of calculating basic earnings per share | **573,964,430** | 576,581,460 |
| Effect of dilutive potential ordinary shares: | | |
| – convertible loan payable | **25,423,728** | 25,423,728 |
| Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share | **599,388,158** | 602,005,188 |

The computation of diluted earnings per share for the years ended 31 December 2022 and 2021 did not assume the issue of potential ordinary shares in relation to all share options granted as they had anti-dilutive effect.

## 17. Property, Plant and Equipment

| | Buildings and leasehold improvements HK$ | Plant and machinery HK$ | Furniture, fixtures and equipment HK$ | Motor vehicles HK$ | Construction in progress HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2021 | 122,981,588 | 101,053,306 | 40,261,693 | 6,864,820 | 100,340,833 | 371,502,240 |
| Additions | 78,333 | 5,687,312 | 8,602,158 | – | 69,138,593 | 83,506,396 |
| Acquisition of subsidiaries | – | – | 1,315,566 | 2,187 | – | 1,317,753 |
| Disposals | – | (1,059,972) | (936,181) | (199,208) | – | (2,195,361) |
| Exchange adjustment | 3,997,130 | 3,364,552 | 1,403,881 | 167,479 | 4,474,336 | 13,407,378 |
| At 31 December 2021 | 127,057,051 | 109,045,198 | 50,647,117 | 6,835,278 | 173,953,762 | 467,538,406 |
| Additions | 407,369 | 10,681,197 | 25,269,430 | 102,424 | 68,119,315 | 104,579,735 |
| Acquisition of a subsidiary | – | – | 191,180 | 289,435 | – | 480,615 |
| Disposals | – | (236,146) | (2,507,189) | – | – | (2,743,335) |
| Transfers | – | 101,296,769 | 2,022,639 | – | (103,319,408) | – |
| Exchange adjustment | (9,750,634) | (11,394,441) | (4,317,749) | (443,976) | (12,378,193) | (38,284,993) |
| At 31 December 2022 | 117,713,786 | 209,392,577 | 71,305,428 | 6,783,161 | 126,375,476 | 531,570,428 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2021 | 16,864,721 | 60,425,121 | 16,352,690 | 4,912,676 | – | 98,555,208 |
| Charge for the year | 2,494,354 | 10,682,935 | 5,502,410 | 513,613 | – | 19,193,312 |
| Acquisition of subsidiaries | – | – | 966,106 | 1,116 | – | 967,222 |
| Disposals | – | (776,903) | (831,718) | (179,287) | – | (1,787,908) |
| Exchange adjustment | 591,752 | 2,137,223 | 589,631 | 132,743 | – | 3,451,349 |
| At 31 December 2021 | 19,950,827 | 72,468,376 | 22,579,119 | 5,380,861 | – | 120,379,183 |
| Charge for the year | 2,416,535 | 11,236,362 | 9,756,577 | 572,706 | – | 23,982,180 |
| Acquisition of a subsidiary | – | – | 99,039 | 260,491 | – | 359,530 |
| Disposals | – | (185,066) | (2,212,058) | – | – | (2,397,124) |
| Exchange adjustment | (1,594,981) | (5,855,289) | (1,771,629) | (366,516) | – | (9,588,415) |
| At 31 December 2022 | 20,772,381 | 77,664,383 | 28,451,048 | 5,847,542 | – | 132,735,354 |
| **Carrying amount:** | | | | | | |
| At 31 December 2022 | 96,941,405 | 131,728,194 | 42,854,380 | 935,619 | 126,375,476 | 398,835,074 |
| At 31 December 2021 | 107,106,224 | 36,576,822 | 28,067,998 | 1,454,417 | 173,953,762 | 347,159,223 |

The carrying amount of construction in progress represented the costs incurred for the construction of the new factory which will be reclassified to buildings and leasehold improvements, plant and machinery and equipment when the construction is completed.

## 18. Leases

### (a) *Right-of-use assets*

The carrying amount of right-of-use assets and the movements are as follows:

| | HK$ |
|---|---|
| At 1 January 2021 | 6,799,732 |
| Depreciation expense | (2,237,673) |
| Exchange adjustment | 181,630 |
| At 31 December 2021 | 4,743,689 |
| Depreciation expense | (2,161,139) |
| Exchange adjustment | (304,919) |
| At 31 December 2022 | 2,277,631 |

### (b) *Lease liabilities*

The carrying amount of lease liabilities and the movements are as follows:

| | **2022 HK$** | 2021 HK$ |
|---|---|---|
| At the beginning of the year | **5,329,487** | 7,420,047 |
| Interest expense | **106,944** | 175,971 |
| Payments | **(2,525,962)** | (2,467,374) |
| Exchange adjustment | **(342,818)** | 200,843 |
| At the end of the year | **2,567,651** | 5,329,487 |
| Analysed into: | | |
| – Current portion | **2,567,651** | 2,548,672 |
| – Non-current portion | **–** | 2,780,815 |

The maturity analysis of lease liabilities is disclosed in note 40(b) to the financial statements.

### (c) Amounts recognised in profit or loss in relation to leases are as follows:

| | **2022 HK$** | 2021 HK$ |
|---|---|---|
| Interest on lease liabilities | **106,944** | 175,971 |
| Depreciation of right-of-use assets | **2,161,139** | 2,237,673 |
| Expenses related to short-term leases and leases of low-value assets | **3,378,595** | 2,686,601 |
| Total amount recognised in profit or loss | **5,646,678** | 5,100,245 |

## 19. Land Use Rights

| | HK$ |
|---|---|
| **Cost:** | |
| At 1 January 2021 | 19,688,495 |
| Exchange adjustment | 639,692 |
| At 31 December 2021 | 20,328,187 |
| Exchange adjustment | (1,558,259) |
| At 31 December 2022 | 18,769,928 |
| **Accumulated amortisation:** | |
| At 1 January 2021 | 2,426,430 |
| Charge for the year | 399,781 |
| Exchange adjustment | 85,858 |
| At 31 December 2021 | 2,912,069 |
| Charge for the year | 386,107 |
| Exchange adjustment | (233,715) |
| At 31 December 2022 | 3,064,461 |
| **Carrying amount:** | |
| At 31 December 2022 | 15,705,467 |
| Portion classified as current assets (included in deposits and prepayments) | (375,618) |
| Non-current assets | 15,329,849 |
| At 31 December 2021 | 17,416,118 |
| Portion classified as current assets (included in deposits and prepayments) | (406,801) |
| Non-current assets | 17,009,317 |

The Group's interests in leasehold lands are held in the PRC.

## 20. Goodwill

| | HK$ |
|---|---|
| **Cost, net of accumulated impairment:** | |
| At 1 January 2021 | 24,152,737 |
| Acquisition of subsidiaries | 26,097,723 |
| Exchange adjustment | 647,799 |
| At 31 December 2021 | 50,898,259 |
| Acquisition of a subsidiary | 37,048,378 |
| Impairment (Note) | (25,830,139) |
| Exchange adjustment | (4,969,737) |
| At 31 December 2022 | 57,146,761 |

### *Impairment testing on goodwill*

The recoverable amount of the goodwill is determined based on each cash-generating unit ("CGU") of the Group to which the goodwill belongs on the value-in-use basis. The following table sets out the details of goodwill and the key assumptions made for the purpose of analysis:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| **CGU** | **Goodwill HK$** | **Gross margin ratio** | **Applicable pre-tax discount rate** | Goodwill HK$ | Gross margin ratio | Applicable pre-tax discount rate |
| Sales of biologic drugs and other pharmaceutical products | **2,265,425** | **87%** | **15.6%** | 2,496,811 | 84% | 16.7% |
| Sales of dental pharmaceuticals and devices | **14,171,214** | **75%** | **17.7%** | 15,347,692 | 89% | 22.4% |
| Operation of clinical management system | **5,572,831** | **100%** | **32.0%** | 5,534,586 | 100% | 32.2% |
| Sales of therapeutic products and medical devices in healthcare industry | **1,257,534** | **20%** | **25.7%** | 1,248,904 | 16% | 32.2% |
| Provision of health consulting services (Note) | **–** | **61%** | **22.5%** | 26,270,266 | 25% | 27.7% |
| Sales of pharmaceutical products | **33,879,757** | **87%** | **37.1%** | N/A | N/A | N/A |

*Note:*

The carrying amount of the provision of health consulting services CGU in Indonesia has been reduced to its recoverable amount through recognition of an impairment loss on goodwill. This was a result of the management's reassessment on the cash flows forecast due to unfavourable market conditions for operating this CGU.

## 20. Goodwill *(Continued)*

### *Impairment testing on goodwill (Continued)*

Management determined the gross margin mainly based on past performance of the CGU and management's expectations for the market development. The discount rate is determined based on the risk-free interest rate adjusted by the specific risk associated with the CGU. The recoverable amounts of respective CGUs have been determined from value-in-use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2021: 3%), which does not exceed the long-term growth rate for respective industries.

Save as disclosed above, the recoverable amount of the goodwill determined in the above manner suggested that there was no impairment in the carrying amount of goodwill as at 31 December 2022 and 2021.

The Directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of respective CGUs.

## 21. Other Intangible Assets

| | Development expenditure HK$ | Acquired intangible assets HK$ | Total HK$ |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2021 | 178,764,837 | 464,427,351 | 643,192,188 |
| Additions | 41,564,726 | 127,761,327# | 169,326,053 |
| Acquisition of subsidiaries | 1,523,651 | 13,590,523 | 15,114,174 |
| Exchange adjustment | 5,894,772 | 12,358,617 | 18,253,389 |
| At 31 December 2021 | 227,747,986 | 618,137,818 | 845,885,804 |
| Additions | 43,157,632 | 276,061,003# | 319,218,635 |
| Disposal | – | (62,719,447) | (62,719,447) |
| Exchange adjustment | (16,416,507) | (38,782,667) | (55,199,174) |
| At 31 December 2022 | 254,489,111 | 792,696,707 | 1,047,185,818 |
| **Accumulated amortisation and impairment losses:** | | | |
| At 1 January 2021 | 32,957,719 | 24,441,161 | 57,398,880 |
| Amortisation | 5,135,582 | 6,004,205 | 11,139,787 |
| Exchange adjustment | 1,139,295 | 899,554 | 2,038,849 |
| At 31 December 2021 | 39,232,596 | 31,344,920 | 70,577,516 |
| Amortisation | 5,095,994 | 10,287,517 | 15,383,511 |
| Impairment (Note) | 13,011,953 | – | 13,011,953 |
| Disposal | – | (25,148,774) | (25,148,774) |
| Exchange adjustment | (3,411,774) | (1,923,403) | (5,335,177) |
| At 31 December 2022 | 53,928,769 | 14,560,260 | 68,489,029 |
| **Carrying amount:** | | | |
| At 31 December 2022 | 200,560,342 | 778,136,447 | 978,696,789 |
| At 31 December 2021 | 188,515,390 | 586,792,898 | 775,308,288 |

## 21. Other Intangible Assets *(Continued)*

# The amount mainly represented the following:

(i) In 2018, the Group entered into a co-development agreement (and as supplemented and revised from time to time) with an independent third party, Mitotech S.A. under which the Group has agreed to fund for a clinical development in the United States Food and Drug Administration phase 3 clinical trial of an ophthalmic solution containing SkQ1 as its sole active pharmaceutical ingredient (the "SkQ1 Product") which shall be provided as a pharmaceutical product in the field of dry eye disease, in return for a share of certain income received by Mitotech S.A. from the SkQ1 Product.

In 2022, the Group acquired from Mitotech S.A. all the rights of a list of inventions and patents relating to SkQ1 in the field of ophthalmology and all ophthalmic indications.

During the year ended 31 December 2022, the development cost incurred in the SkQ1 Product was HK$36,150,281 (2021: HK$30,103,434). As at 31 December 2022, the carrying amount of the SkQ1 Product was HK$354,105,347 (2021: HK$331,352,175).

The Group carried out an impairment assessment on the SkQ1 Product by estimating the recoverable amount. The key assumptions and inputs used in the impairment assessment include probability of obtaining regulatory approval of 45.2%, pricing and market access risks of 43.3% and annual discount rate of 32.5%. The result of the impairment assessment indicated that there was no impairment as at 31 December 2022 and 2021. The Directors believe that any reasonable possible change in such key assumptions would not cause an impairment loss to the Group.

(ii) In 2020, the Group entered into a co-development and exclusive license agreement with an independent third party, Shanghai Henlius Biotech, Inc. ("Henlius") under which the Group has agreed to fund 80% of the development costs of a pharmaceutical product that contains an anti-vascular endothelial growth factor (anti-VEGF) as a drug substance (the "Licensed Product"), which is intended for the treatment of exudative (wet) age-related macular degeneration. In return, the Group has obtained an exclusive license for the regulatory development, manufacture and commercialisation of the Licensed Product worldwide, subject to commercial sales milestone payment and royalties levied on net sales of the Licensed Product payable to Henlius.

During the year ended 31 December 2022, the development cost incurred in the Licensed Product was HK$64,652,204 (2021: HK$87,454,660). As at 31 December 2022, the carrying amount of the Licensed Product was HK$215,333,767 (2021: HK$165,093,127).

The Group carried out an impairment assessment on the Licensed Product by estimating the recoverable amount. The key assumptions and inputs used in the impairment assessment include annual discount rate of 32.5%. The result of the impairment assessment indicated that there was no impairment as at 31 December 2022 and 2021. The Directors believe that any reasonable possible change in such key assumptions would not cause an impairment loss to the Group.

(iii) In 2022, the Group acquired intellectual property rights and right of Marketing Authorisation Holder relating to 適麗順® (Iodized Lecithin Capsules*) at an effective consideration of HK$144,079,537 (2021: Nil).

## 21. Other Intangible Assets *(Continued)*

*Note:*

During the year ended 31 December 2022, the capitalised costs of two development projects were impaired by the Group as a result of the Group deciding not to further proceed with these two development projects which deviated from the Group's business direction. Accordingly, an aggregate loss of HK$13,011,953 on the development expenditure was recognised in profit or loss.

## 22. Convertible Loan Receivables

(i) In 2018, the Group entered into an agreement with an independent third party ("Investee A") to subscribe for a convertible loan with principal amount of US$4,500,000 (approximately HK$35,278,200) which carries interest at 5% per annum with maturity on 31 July 2022 ("Convertible Loan A"). On 7 January 2022, the Group entered into a supplementary agreement with Investee A to extend the maturity date of Convertible Loan A to 31 July 2024. The entire principal amount of Convertible Loan A can be converted into such number of shares representing 45% of the enlarged and fully diluted share capital of Investee A at any time before the maturity date. In the event that no conversion has been taken place before maturity date, Investee A shall repay the Group the outstanding principal amount plus an amount calculated by the Group which would yield a return for the Group on the principal amount of Convertible Loan A of 8% per annum. The first tranche in the principal amount of US$600,000 (equivalent to HK$4,696,774) ("Tranche A of Convertible Loan A") was disbursed to Investee A in 2018. During the year ended 31 December 2022, the second tranche in the principal amount of US$600,000 (equivalent to HK$4,666,004) ("Tranche B of Convertible Loan A") was subscribed by the Group. Tranches A and B of Convertible Loan A are classified as financial assets at FVTPL upon the initial recognition.

(ii) In 2019, the Group entered into a convertible loan agreement with an independent third party, a private company incorporated in Singapore ("Investee B"), with principal amount of US$2,000,000 (equivalent to HK$15,585,200) ("Convertible Loan B") which would yield a return of 25% per annum for the Group on the principal amount of Convertible Loan B if no conversion has been taken place before the maturity date (i.e. 5 January 2021). On 4 January 2021, the Group entered into an amendment deed with Investee B to extend the maturity date of Convertible Loan B to 5 November 2022. The Group's shareholding in Investee B upon full conversion of Convertible Loan B represents 60% of the enlarged and fully diluted share capital of Investee B. Convertible Loan B is classified as financial asset at FVTPL upon the initial recognition.

In 2021, Convertible Loan B was eliminated at consolidation level upon the acquisition of 100% equity interest in Investee B (Note 36(a)).

## 22. Convertible Loan Receivables *(Continued)*

(iii) In 2019, the Group entered into a convertible loan agreement with an independent third party, 成都上工醫信科技有限公司 (Chengdu Shanggong Medical Technology Co., Ltd.*) ("Shanggong"), with principal amount of RMB15,000,000 (equivalent to HK$17,045,455) which carries interest at 10% per annum with maturity on 1 January 2021 ("Convertible Loan C"). On 23 December 2020, the Group entered into a supplementary agreement with Shanggong to (i) extend the maturity date of Convertible Loan C to 1 January 2022; and (ii) adjust the interest rate to 12% per annum. The principal amount of Convertible Loan C can be converted into such equity interest representing approximately 8.11% of the entire equity interest of Shanggong at any time before the maturity date. Convertible Loan C is classified as financial asset at FVTPL upon the initial recognition.

During the year ended 31 December 2022, Convertible Loan C was settled by way of acquiring certain intellectual property rights from Shanggong.

(iv) In 2020, 2021 and during the year ended 31 December 2022, the Group made available certain convertible loans to Antikor Biopharma Limited ("Antikor") in the aggregate principal amount of US$3,250,000 (equivalent to HK$25,302,724) which carry interest at 5% per annum with maturity on 30 September 2023 ("Convertible Loan D"). The aggregate principal amount of Convertible Loan D can be converted into such number of shares representing 25.99% of the enlarged and fully diluted share capital of Antikor at any time before the maturity date. Convertible Loan D is classified as financial asset at FVTPL upon the initial recognition.

(v) In 2021, the Group entered into a convertible loan agreement with an independent third party, Mitotech S.A., with principal amount of US$1,200,000 (equivalent to HK$9,323,389) which carries interest at 8% per annum with maturity on 15 October 2022 ("Convertible Loan E"). The principal amount of Convertible Loan E can be converted into such number of shares representing 1% of the enlarged and fully diluted share capital of Mitotech S.A. at any time before the maturity date. Convertible Loan E is classified as financial asset at FVTPL upon the initial recognition.

During the year ended 31 December 2022, Convertible Loan E was settled by way of acquiring a patent and know-how licence relating to SkQ1 in the field of dermatology from Mitotech S.A.

## 22. Convertible Loan Receivables *(Continued)*

The Group's convertible loan receivables are recognised as follows:

| | HK$ |
|---|---|
| **At 31 December 2022** | |
| – Tranches A and B of Convertible Loan A | **10,545,317** |
| – Convertible Loan D | **26,321,521** |
| Total | **36,866,838** |
| Less: Current portion | **(26,321,521)** |
| Non-current portion | **10,545,317** |

| | HK$ |
|---|---|
| **At 31 December 2021** | |
| – Tranche A of Convertible Loan A | 5,873,655 |
| – Convertible Loan C | 6,246,001 |
| – Convertible Loan D | 19,196,929 |
| – Convertible Loan E | 8,660,279 |
| Total, classified under current assets | 39,976,864 |

The movements in fair values of convertible loan receivables classified as level 3 in the fair value hierarchy are as follows:

| | HK$ |
|---|---|
| At 1 January 2021 | 75,350,152 |
| Additions | 16,306,553 |
| Elimination at consolidation level upon the acquisition of subsidiaries | (23,294,695) |
| Change in fair value recognised in profit or loss | (29,036,171) |
| Exchange differences | 651,025 |
| At 31 December 2021 | 39,976,864 |
| Additions | 12,513,587 |
| Settlement | (15,059,312) |
| Change in fair value recognised in profit or loss | (246,560) |
| Exchange differences | (317,741) |
| At 31 December 2022 | 36,866,838 |

## 22. Convertible Loan Receivables *(Continued)*

As at 31 December 2022, the fair values of convertible loan receivables are calculated using Binomial Share Option Model with the following key assumptions:

| | **Convertible Loan A** | **Convertible Loan D** |
|---|---|---|
| Stock price | Nil | US$0.1 |
| Expected volatility | 185% | 62% |

The key significant unobservable inputs to determine the fair value of convertible loan receivables are the stock price and expected volatility. A higher in the stock price and expected volatility would result in an increase in the fair value of convertible loan receivables, and vice versa.

During the loan period, the Group was entitled to appoint one director of Investee A in accordance with the agreement of the convertible loan receivable. Taking into account the right to appoint director and the potential voting right in accordance with HKAS 28 *Investments in Associates and Joint Ventures*, the Group has regarded Investee A as an associate of the Group. As at 31 December 2022 and up to the date of approval of these financial statements, the Group has not converted the convertible loan receivable into equity interest of Investee A, and therefore the Group is not entitled to share the profit or loss of Investee A and accordingly, has no interest in this associate.

## 23. Financial Assets at Fair Value Through Other Comprehensive Income and Financial Assets at Fair Value Through Profit or Loss

| | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|
| **Non-current** | | |
| Equity investments designated at FVTOCI (Note (a)) | | |
| – Listed equity investments (Note (b)) | **11,468,412** | 31,125,118 |
| – Unlisted equity investments (Note (c)) | **11,749,937** | 19,035,639 |
| | **23,218,349** | 50,160,757 |
| Equity investments designated at FVTPL (Note (d)) | | |
| – Unlisted equity investments (Note (c)) | **2,060,452** | 6,415,583 |
| **Current** | | |
| Equity investments designated at FVTPL (Note (d)) | | |
| – Listed equity investments (Note (b)) | **6,053** | 14,666 |

*Notes:*

(a) The equity investments were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature.

(b) The balance as at 31 December 2022 represents two (2021: two) listed equity securities which are listed on the NASDAQ Stock Market of the United States, namely AC Immune SA and Humacyte Inc. The fair value was based on quoted market price as at 31 December 2022.

(c) The balance as at 31 December 2022 represents five (2021: five) unlisted equity investments, namely the investments in (i) series C preferred stock and common stock of a private company incorporated in the United States; (ii) equity interest in Shanggong; (iii) ordinary shares of Antikor; (iv) series pre-A preferred stock of a private company incorporated in Singapore; and (v) ordinary shares of another private company incorporated in Singapore.

(d) The equity investments were irrevocably designated at FVTPL as the Group considers these investments to be held for trading.

During the year ended 31 December 2022, a gross loss amounted to HK$26,495,769 and a gross loss amounted to HK$4,510,742 were recognised in other comprehensive income and profit or loss respectively.

During the year ended 31 December 2021, a gross loss amounted to HK$29,110,034 and a gross loss amounted to HK$2,859,013 were recognised in other comprehensive income and profit or loss respectively.

## 23. Financial Assets at Fair Value Through Other Comprehensive Income and Financial Assets at Fair Value Through Profit or Loss *(Continued)*

The movements in fair value of equity interest in Shanggong classified as level 3 in the fair value hierarchy are as follows:

| | HK$ |
|---|---|
| At 1 January 2021 | 37,798,722 |
| Change in fair value recognised in other comprehensive income | (30,255,898) |
| Exchange differences | 696,758 |
| At 31 December 2021 | 8,239,582 |
| Change in fair value recognised in other comprehensive income | (6,808,761) |
| Exchange differences | (446,639) |
| At 31 December 2022 | 984,182 |

As at 31 December 2022, the fair value of equity interest in Shanggong is calculated using Value Allocation Model with the following key assumptions:

| | |
|---|---|
| Expected volatility | 50% |
| Risk-free interest rate | 2.07% |

A higher in the expected volatility would result in an increase in the fair value of equity interest in Shanggong, and vice versa. A higher in the risk-free interest rate would result in a decrease in the fair value of equity interest in Shanggong, and vice versa.

## 24. Inventories

| | **2022**<br>**HK$** | 2021<br>HK$ |
|---|---|---|
| Raw materials | **14,433,465** | 12,901,286 |
| Work in progress | **16,489,776** | 14,194,082 |
| Finished goods | **52,735,567** | 70,478,388 |
| | **83,658,808** | 97,573,756 |

During the year, the Group has carried out regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption, physical condition and management judgement. As a result, inventories of HK$4,154,365 (2021: HK$3,665,473) have been written off and recognised in profit or loss.

## 25. Trade and Other Receivables

| | **2022** **HK$** | 2021 HK$ |
|---|---|---|
| Trade receivables | **451,244,095** | 651,929,579 |
| Other receivables | **22,491,239** | 22,338,450 |
| | **473,735,334** | 674,268,029 |

The Group's policy is to allow a credit period of 90 days to its trade customers.

The Directors have considered the track records of customers and age of the outstanding balances and are of the view that no provision is required as at 31 December 2022 and 2021.

The ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

| | **2022** **HK$** | 2021 HK$ |
|---|---|---|
| 0-60 days | **191,493,113** | 442,987,969 |
| 61-90 days | **75,777,664** | 75,298,034 |
| Over 90 days | **183,973,318** | 133,643,576 |
| | **451,244,095** | 651,929,579 |

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **2022** **HK$** | 2021 HK$ |
|---|---|---|
| Neither past due nor impaired | **267,270,777** | 518,286,003 |
| Less than 3 months past due | **166,492,583** | 113,788,901 |
| Over 3 months past due | **17,480,735** | 19,854,675 |
| | **451,244,095** | 651,929,579 |

The Group recognised impairment loss based on the accounting policies set out in note 4(h).

## 26. Deposits and Prepayments

| | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|
| Deposits paid for acquisition of property, plant and equipment | **7,677,656** | 21,432,241 |
| Deposits paid for acquisition of other intangible assets | **–** | 42,920,297 |
| Prepayments for purchase of finished goods | **9,628,179** | 1,489,886 |
| Other deposits | **1,773,921** | 1,157,106 |
| Other prepayments | **8,152,010** | 8,101,453 |
| Total | **27,231,766** | 75,100,983 |
| Less: Current portion | **(19,554,110)** | (10,748,445) |
| Non-current portion | **7,677,656** | 64,352,538 |

Deposits and prepayments do not contain impaired assets and their carrying amounts approximate to their fair values.

## 27. Pledged Bank Deposits and Restricted Cash

Pledged bank deposits of the Group represent deposits pledged to banks to secure banking facilities granted to the Group, and will be released upon the release of the relevant banking facilities.

In October 2022, the main contractor in charge of the construction work of the Group's second factory in the PRC has initiated legal proceedings against one of the subsidiaries of the Company seeking compensation for the disputed construction progress payments and has obtained a court order to freeze one of the bank accounts of such subsidiary of which bank balance of HK$52,941,562 as at 31 December 2022 was affected. The Directors, based on the advice from the Group's legal counsel, believe that the Group has a valid defence against the allegation and accordingly, the Group has not provided for any claim arising from the litigation.

## 28. Cash and Cash Equivalents

As at 31 December 2022, cash and cash equivalents denominated in Renminbi ("RMB") amounted to approximately HK$358,600,000 (2021: approximately HK$575,500,000). RMB is not freely convertible into foreign currencies in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

## 29. Trade and Other Payables

| | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|
| Trade payables | **10,656,980** | 4,465,766 |
| Other payables and accruals (Note) | **405,668,927** | 464,296,812 |
| | **416,325,907** | 468,762,578 |

*Note:*

Other payables and accruals included the accruals for sales and marketing costs of HK$308,405,439 (2021: HK$354,807,133).

The ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|
| 0-60 days | **10,477,393** | 4,465,766 |
| 61-90 days | **116,613** | – |
| Over 90 days | **62,974** | – |
| | **10,656,980** | 4,465,766 |

## 30. Bank Borrowings

| | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|
| **Secured bank loans** | | |
| Due for repayment within one year | 105,045,225 | 81,991,235 |
| Due for more than one year and within five years | 224,405,892 | 334,791,760 |
| Total bank borrowings | 329,451,117 | 416,782,995 |
| Less: Current portion | (105,045,225) | (153,366,235) |
| Non-current portion | 224,405,892 | 263,416,760 |
| Carrying amount of bank loans due for repayment within one year, or more than one year but contain a repayment on demand clause effective within one year after the end of the reporting period | 105,045,225 | 153,366,235 |

As at 31 December 2022, certain of the bank borrowings and banking facilities were secured by (i) corporate guarantees provided by the Company and its certain subsidiaries; and (ii) a pledged bank deposit of HK$14,275,000.

As at 31 December 2021, certain of the bank borrowings and banking facilities were secured by (i) corporate guarantees provided by the Company and its certain subsidiaries; and (ii) pledged bank deposits of HK$53,473,930.

The bank borrowings bear interest at floating rate. The interest rate of the Group's bank borrowings ranged from 3.6% to 7.2% (2021: 1.7% to 3.7%) per annum as at 31 December 2022.

The Group obtained banking facilities of HK$602,006,210 (2021: HK$763,019,022), of which HK$485,223,946 (2021: HK$491,157,995) was utilised at the end of reporting period.

## 31. Convertible Loan Payable

On 6 July 2016 ("Issue Date"), the Group entered into a convertible loan agreement with International Finance Corporation ("IFC"), pursuant to which IFC agreed to lend, and the Group agreed to borrow, a convertible loan in an aggregate principal amount of HK$150,000,000 at an interest rate of 1.9% per annum (the "Convertible Loan Payable"). Subject to the terms of the convertible loan agreement, IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan Payable into shares of the Company at a conversion price of HK$5.90 per share (subject to anti-dilutive adjustments as set out in the convertible loan agreement) at any time prior to the maturity date on 2 August 2021. On 10 July 2020, the Group and IFC entered into an amendment agreement to the convertible loan agreement to extend the maturity date for a period of 3 years to 2 August 2024. On 6 October 2020, the amendment agreement has become effective. The Company accounted for the extension as a derecognition of the existing financial liability and the recognition of a new financial liability with a gain recognised on extinguishment, being the difference between the fair value of consideration given to extinguish the financial liability and its previous carrying amount.

The Company shall repay the outstanding principal amount of the Convertible Loan Payable on the maturity date together with the make whole premium calculated at (i) 6% per annum; or (ii) 8% per annum if there exists a change of control which occurs when, among others, (a) there is a decrease in the shareholdings of the Company's certain shareholders as a group under specified conditions as stipulated in the convertible loan agreement; (b) certain shareholders of the Company as a group cease to be the single largest direct and indirect shareholder of the Company; or (c) any person (other than certain shareholders as a group) by itself or through its affiliates have obtained the power to appoint a majority of the board of directors of the Company.

Pursuant to the convertible loan agreement, unless otherwise agreed in writing by the IFC, the Company shall, within 10 days following the occurrence of a change of control defined in the convertible loan agreement, prepay the outstanding principal amount of the Convertible Loan Payable, together with accrued interest, the make whole premium (if any), increased costs (if any) thereon and all other amounts payable under the convertible loan agreement, including the amount of unwinding costs payable if the prepayment is not made on an interest payment date.

The fair value of the debt component and the equity conversion component were determined at the issuance/extinguishment of the Convertible Loan Payable where appropriate. The fair value of the debt component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in equity. The make whole premium, being an embedded derivative, was measured at fair value separately. At Issue Date and at 31 December 2022, the fair value of the make whole premium was determined by the Directors to be minimal.

## 31. Convertible Loan Payable *(Continued)*

The movements of the Convertible Loan Payable are as follows:

| | **Debt component** HK$ | **Conversion component** HK$ | **Total** HK$ |
|---|---|---|---|
| As at 1 January 2021 | 140,529,056 | 15,227,318 | 155,756,374 |
| Imputed interest expense | 5,433,238 | – | 5,433,238 |
| Interest paid | (2,889,583) | – | (2,889,583) |
| As at 31 December 2021 | 143,072,711 | 15,227,318 | 158,300,029 |
| Imputed interest expense | 17,532,089 | – | 17,532,089 |
| Interest paid | (2,889,583) | – | (2,889,583) |
| As at 31 December 2022 | 157,715,217 | 15,227,318 | 172,942,535 |

## 32. Deferred Tax Liabilities

Details of the deferred tax liabilities recognised and movements are as follows:

| | **Depreciation allowance in excess of related depreciation** HK$ | **Development expenditure** HK$ | **Undistributed earnings of PRC subsidiaries** HK$ | **Total** HK$ |
|---|---|---|---|---|
| At 1 January 2021 | – | 19,203,518 | 10,154,877 | 29,358,395 |
| Settled during the year | – | (729,760) | (10,154,877) | (10,884,637) |
| Charged to profit or loss for the year | – | 5,005,246 | 6,128,042 | 11,133,288 |
| Exchange differences | – | 699,020 | – | 699,020 |
| At 31 December 2021 | – | 24,178,024 | 6,128,042 | 30,306,066 |
| Settled during the year | – | (2,568,381) | (5,843,169) | (8,411,550) |
| Charged to profit or loss for the year | 10,393,133 | 4,287,203 | 3,600,000 | 18,280,336 |
| Exchange differences | (282,340) | (1,900,061) | – | (2,182,401) |
| At 31 December 2022 | 10,110,793 | 23,996,785 | 3,884,873 | 37,992,451 |

## 32. Deferred Tax Liabilities *(Continued)*

The Group has tax losses arising in Hong Kong of approximately HK$189 million (2021: approximately HK$174 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Withholding tax on undistributed earnings is calculated at 5% on the distributable earnings of the subsidiaries in the PRC expected to be distributed to the holding company with its principal place of business located in Hong Kong. At the end of the reporting period, undistributed earnings of the subsidiaries in the PRC on which deferred tax has not been provided for amounted to approximately HK$931 million (equivalent to approximately RMB823 million) (2021: approximately HK$847 million (equivalent to approximately RMB691 million)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

## 33. Share Capital

*Authorised*

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Number** | **HK$** | Number | HK$ |
| Ordinary shares of HK$0.1 each | **1,000,000,000** | **100,000,000** | 1,000,000,000 | 100,000,000 |

*Issued and fully paid*

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Number** | **HK$** | Number | HK$ |
| At the beginning of the year | **575,558,000** | **57,555,800** | 576,903,000 | 57,690,300 |
| Employee share options exercised | **–** | **–** | 320,000 | 32,000 |
| Shares repurchased and cancelled (Note) | **(3,955,000)** | **(395,500)** | (1,665,000) | (166,500) |
| At the end of the year | **571,603,000** | **57,160,300** | 575,558,000 | 57,555,800 |

*Note:*

During the year ended 31 December 2022, the Company repurchased 3,833,000 of its shares on the Stock Exchange for a total consideration of HK$14,186,650 which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. The repurchased shares (together with 122,000 shares repurchased by the end of December 2021) were cancelled during the year ended 31 December 2022 and the total amount paid for the repurchase of the shares has been charged to retained profits of the Company.

## 34. Reserves

| The Company | Share premium HK$ | Share option reserve HK$ | Fair value reserve HK$ | Conversion component of convertible loan payable HK$ | Retained earnings HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| Balance at 1 January 2021 | 71,106,224 | 4,534,382 | 18,095,900 | 15,227,318 | 3,788,424 | 112,752,248 |
| Profit for the year | – | – | – | – | 63,479,113 | 63,479,113 |
| Equity-settled share-based payments | – | 264,493 | – | – | – | 264,493 |
| Exercise of share options | 2,189,513 | (333,513) | – | – | – | 1,856,000 |
| 2020 final dividend paid | – | – | – | – | (28,824,050) | (28,824,050) |
| 2021 interim dividend paid | – | – | – | – | (23,065,200) | (23,065,200) |
| Shares repurchased and cancelled | (2,900) | – | – | – | (8,512,710) | (8,515,610) |
| Transfer of share option reserve upon the forfeiture or expiry of share options | – | (2,784,111) | – | – | 2,784,111 | – |
| Balance at 31 December 2021 | 73,292,837 | 1,681,251 | 18,095,900 | 15,227,318 | 9,649,688 | 117,946,994 |
| Profit for the year | – | – | – | – | 73,143,417 | 73,143,417 |
| Equity-settled share-based payments | – | 87,049 | – | – | – | 87,049 |
| 2021 final dividend paid | – | – | – | – | (31,610,425) | (31,610,425) |
| 2022 interim dividend paid | – | – | – | – | (22,915,520) | (22,915,520) |
| Shares repurchased and cancelled | (6,889) | – | – | – | (14,387,681) | (14,394,570) |
| Balance at 31 December 2022 | 73,285,948 | 1,768,300 | 18,095,900 | 15,227,318 | 13,879,479 | 122,256,945 |

The nature and purpose of each reserve of the Group are set out below:

### *(i) Capital reserve*

The capital reserve represents discount on acquisition of a subsidiary in prior years.

### *(ii) Statutory surplus reserve*

In accordance with the PRC Companies Law, the Company's PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to statutory surplus reserve. Such reserve may be used to reduce any loss incurred by the subsidiary or be capitalised as paid-up capital of the subsidiary. The statutory surplus reserve is non-distributable.

### *(iii) Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(l).

## 35. Share-Based Payments

### *(a) Equity-settled share option scheme*

The Share Option Scheme (the "Scheme") was approved on 3 May 2013. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include (i) any director, officer, employee or officer employed by any company within the Group or by any member of the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate") (whether full time or part time) ("Employee"), consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to an Affiliate; or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate; or (iii) a company beneficially owned by any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate ("Eligible Participants").

The maximum number of shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other schemes involving the issue or grant of options or similar rights over shares or other securities by the Company must not, in aggregate, exceed 30% of the shares in issue from time to time. A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

The subscription price of shares under the Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the highest of (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; and (iii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Any grant of share options to any director, chief executive or substantial shareholder or any of their respective associates must be approved by the independent non-executive directors of the Company (but excluding, for all purposes, any independent non-executive director of the Company who is a proposed grantee). Where any grant of share options to a substantial shareholder or an independent non-executive director of the Company or their respective associates would result in the total number of the shares issued and to be issued upon exercise of the share options granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million,

such further grant of share options must be approved by the shareholders of the Company. The Company must send a circular to its shareholders. All connected persons must abstain from voting in favour at such general meeting. Any vote taken at the meeting to approve the grant of such share options must be taken on a poll in accordance with the Listing Rules.

## 35. Share-Based Payments *(Continued)*

### (a) *Equity-settled share option scheme (Continued)*

*Share options granted on 11 November 2016*

Pursuant to a board resolution on 11 November 2016, the Company granted 2,300,000 share options to three employees of the Group (one of which was appointed as an executive Director with effect from 19 September 2020) under the Scheme. Set out below were details of the outstanding options granted under the Scheme:

(1) All options granted were at an exercise price of HK$5.90 per share;

(2) All holders of options might only exercise their options in the following manner:

The share options will be vested in 5 tranches, i.e. the first 20% from six months after the date of grant, the second 20% from one year after the date of grant, the third 20% from one and half years after the date of grant, the fourth 20% from two years after date of grant and the remaining 20% from two and half years after the date of grant;

(3) All outstanding or unexercised share options granted to the grantees shall lapse after 10 November 2021.

*Share options granted on 27 June 2018*

Pursuant to a board resolution on 27 June 2018, the Company granted 1,000,000 share options to an employee of the Group under the Scheme. Set out below were details of the outstanding options granted under the Scheme:

(1) All options granted were at an exercise price of HK$10.00 per share;

(2) The holder of options might only exercise the options in the following manner:

The share options will be vested in 3 tranches, i.e. the first 30% from two years after the date of grant, the second 30% from three years after the date of grant and the remaining 40% from four years after the date of grant;

(3) All outstanding or unexercised share options granted to the grantee shall lapse after 26 June 2023.

## 35. Share-Based Payments *(Continued)*

### (a) *Equity-settled share option scheme (Continued)*

Set out below are details of movements of the outstanding options granted under the Scheme during the years ended 31 December 2022 and 2021:

**For the year ended 31 December 2022**

| | | Number of share options | | | | |
|---|---|---|---|---|---|---|
| | Exercise price | Outstanding as at 1 January 2022 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31 December 2022 |
| Other eligible employee | **HK$10.00** | **1,000,000** | **–** | **–** | **–** | **1,000,000** |

For the year ended 31 December 2021

| | | Number of share options | | | | |
|---|---|---|---|---|---|---|
| | Exercise price | Outstanding as at 1 January 2021 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31 December 2021 |
| Executive Director – Ngiam Hian Leng Malcolm | HK$5.90 | 1,000,000 | – | – | (1,000,000) | – |
| Other eligible employees | HK$5.90 | 1,243,000 | – | (320,000) | (923,000) | – |
| Other eligible employee | HK$10.00 | 1,000,000 | – | – | – | 1,000,000 |
| Total | | 3,243,000 | – | (320,000) | (1,923,000) | 1,000,000 |

## 35. Share-Based Payments *(Continued)*

### (a) *Equity-settled share option scheme (Continued)*

Share options and weighted average exercise price for the years ended 31 December 2022 and 2021 are as follows:

**For the year ended 31 December**

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price HK$** | Number | Weighted average exercise price HK$ |
| Outstanding at 1 January | **1,000,000** | **10.00** | 3,243,000 | 7.16 |
| Exercised during the year | **–** | **–** | (320,000) | 5.90 |
| Lapsed during the year | **–** | **–** | (1,923,000) | 5.90 |
| Outstanding at 31 December | **1,000,000** | **10.00** | 1,000,000 | 10.00 |
| Exercisable at the end of the year | **1,000,000** | **10.00** | 600,000 | 10.00 |

The weighted average share price for share options exercised during the year ended 31 December 2021 at the date of exercise was HK$7.85 per share.

The weighted average remaining contractual life for share options was as follows:

| **Date of grant** | **31 December 2022** | 31 December 2021 |
|---|---|---|
| 27 June 2018 | **0.5 years** | 1.5 years |

Of the total number of share options outstanding as at 31 December 2021, 400,000 share options had not vested and were not exercisable as at 31 December 2021.

During the year ended 31 December 2022, the Company recognised the total expense of HK$87,049 (2021: HK$264,493) in relation to share options granted by the Company to the employees.

## 35. Share-Based Payments *(Continued)*

### *(b) Equity-settled service contract*

*Share options granted on 1 November 2017*

On 1 November 2017, the Company entered into a service contract with Hong Kong Zhixin Financial News Agency Limited ("HK Zhixin") to appoint HK Zhixin as the Group's investor relations consultant for a term of four years. In consideration of the services provided by HK Zhixin, the Company granted 5,000,000 share options to HK Zhixin.

Set out below were details of the share options granted to HK Zhixin:

(1) All holders of options might only exercise their options at respective exercise prices in the following manner:

- (i) Up to 34% of the total number of HK Zhixin share options is exercisable during the period from 1 November 2018 to 31 October 2019 at HK$6.50 per share;
- (ii) Up to 34% of the total number of HK Zhixin share options is exercisable during the period from 1 November 2019 to 31 October 2020 at HK$7.50 per share; and
- (iii) Up to 32% of the total number of HK Zhixin share options is exercisable during the period from 1 November 2020 to 31 October 2021 at HK$8.50 per share;

(2) Each of the outstanding or unexercised share options granted to HK Zhixin shall lapse after the respective exercise periods.

The fair value of the services on 1 November 2017 was HK$2,400,000, which was based on terms and conditions stated in the services contract.

During the year ended 31 December 2021, 765,537 share options were lapsed and no share options were exercised.

## 36. Business Combination

(a) On 18 November 2021, the Group acquired 100% equity interest in Investee B from independent third parties with nil consideration. Investee B is engaged in the provision of health consulting services. The acquisition was in line with the Group's expansion strategies.

The fair values of the identifiable assets and liabilities of Investee B and its subsidiary as at the date of acquisition were as follows:

| | **Fair value recognised on acquisition** HK$ |
|---|---|
| Property, plant and equipment | 350,531 |
| Other intangible assets | 15,114,174 |
| Inventories | 8,024 |
| Trade and other receivables | 109,612 |
| Deposits and prepayments | 167,351 |
| Bank balances | 31,556 |
| Trade and other payables | (18,584,276) |
| Convertible loan payable | (23,294,695) |
| Total identifiable net liabilities at fair value | (26,097,723) |
| Goodwill on acquisition | 26,097,723 |
| Consideration | – |

None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill, which is not deductible for tax purposes, represents the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

## 36. Business Combination *(Continued)*

(a) *(Continued)*

An analysis of the cash flows in respect of the acquisition of Investee B is as follows:

| | HK$ |
|---|---|
| Bank balances acquired and net inflow of cash and cash equivalents included in cash flows from investing activities | 31,556 |

Since the acquisition, Investee B did not contribute any significant amount to the Group's revenue and profit for the year ended 31 December 2021.

Had the combination taken place at the beginning of 2021, the revenue and profit of the Group for 2021 would have been approximately HK$1,637.7 million and approximately HK$328.6 million, respectively.

(b) On 8 March 2022, the Group acquired effectively 100% equity interest in Guangdong Hanfeng Baisheng Pharmaceutical Co., Ltd. ("Hanfeng Baisheng") from an independent third party with nil consideration. Hanfeng Baisheng is engaged in the sale of pharmaceutical products. The acquisition was in line with the Group's expansion strategies and will enable the Group to strengthen its ophthalmology business.

The fair values of the identifiable assets and liabilities of Hanfeng Baisheng as at the date of acquisition were as follows:

| | **Fair value recognised on acquisition** HK$ |
|---|---|
| Property, plant and equipment | 121,085 |
| Inventories | 7,417,556 |
| Trade and other receivables | 53,099,000 |
| Bank balances | 3,471,720 |
| Other payables | (101,157,739) |
| Total identifiable net liabilities at fair value | (37,048,378) |
| Goodwill on acquisition | 37,048,378 |
| Consideration | – |

## 36. Business Combination *(Continued)*

(b) *(Continued)*

None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill, which is not deductible for tax purposes, represents the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

An analysis of the cash flows in respect of the acquisition of Hanfeng Baisheng is as follows:

| | HK$ |
|---|---|
| Bank balances acquired and net inflow of cash and cash equivalents included in cash flows from investing activities | 3,471,720 |

Since the acquisition, Hanfeng Baisheng contributed approximately HK$108.1 million to the Group's revenue and approximately HK$6.3 million to the Group's profit for the year ended 31 December 2022.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been approximately HK$1,320.4 million and approximately HK$223.4 million, respectively.

## 37. Holding Company Statement of Financial Position

| | Notes | 2022 HK$ | 2021 HK$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | | **508,510,348** | 509,099,129 |
| **Current assets** | | | |
| Prepayments | | **256,267** | 856,594 |
| Cash and cash equivalents | | **24,517,553** | 4,502,720 |
| **Total current assets** | | **24,773,820** | 5,359,314 |
| **Total assets** | | **533,284,168** | 514,458,443 |
| **Current liabilities** | | | |
| Other payables and accruals | | **2,406,056** | 2,137,288 |
| Bank borrowings | | **19,374,565** | – |
| **Total current liabilities** | | **21,780,621** | 2,137,288 |
| **Net current assets** | | **2,993,199** | 3,222,026 |
| **Total assets less current liabilities** | | **511,503,547** | 512,321,155 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **174,371,085** | 193,745,650 |
| Convertible loan payable | 31 | **157,715,217** | 143,072,711 |
| **Total non-current liabilities** | | **332,086,302** | 336,818,361 |
| **Total liabilities** | | **353,866,923** | 338,955,649 |
| **NET ASSETS** | | **179,417,245** | 175,502,794 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 33 | **57,160,300** | 57,555,800 |
| Reserves | 34 | **122,256,945** | 117,946,994 |
| **TOTAL EQUITY** | | **179,417,245** | 175,502,794 |

On behalf of the Board

**Fang Haizhou** **Yau Lai Man**

## 38. Interests in Subsidiaries

Details of the Company's principal subsidiaries as at the end of the reporting period are as follows:

| Name of subsidiary | Form of business structure | Place of incorporation and operation | Issued and fully paid share capital/ registered capital | Percentage of ownership interest directly | Percentage of ownership interest indirectly | Principal activity |
|---|---|---|---|---|---|---|
| Essex Bio-Investment Limited | Limited liability company | British Virgin Islands/ Hong Kong | US$5 | 100% | – | Investment holding |
| Essex Bio-Pharmacy Limited | Limited liability company | Hong Kong | HK$8,000,000 | – | 100% | Investment holding |
| 珠海億勝生物製藥有限公司 Zhuhai Essex Bio-Pharmaceutical Company Limited*(1) | Limited liability company | PRC | RMB150,000,000 | – | 100% | Manufacture and sale of biologic drugs |
| 珠海億勝醫藥有限公司 Essex Medipharma (Zhuhai) Company Limited* | Limited liability company | PRC | RMB3,000,000 | – | 100% | Marketing and distribution of pharmaceutical products |
| 珠海全一科技有限公司 Zhuhai UNO Technology Company Limited*(1) | Limited liability company | PRC | RMB50,000,000 | – | 100% | Investment holding |

(1) These subsidiaries are registered as wholly-foreign-owned enterprises under the law of the PRC.

## 39. Capital Commitments

| | **2022 HK$** | 2021 HK$ |
|---|---|---|
| Contracted but not provided for: | | |
| – property, plant and equipment | **3,146,856** | 18,718,949 |
| – development expenditure (Note) | **65,542,818** | 68,201,649 |
| – acquired intangible assets | **146,536,472** | 290,227,835 |
| – construction of the new factory | **156,675,376** | 175,334,391 |
| – expansion of the existing factory | **1,524,619** | 30,097,440 |
| | **373,426,141** | 582,580,264 |

*Note:*

Development expenditure represented the contract fees to independent third parties for carrying out the research and development on the Group's projects.

## 40. Financial Risk Management

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

### *(a) Credit risk*

The Group's credit risk is primarily attributable to its trade and other receivables, convertible loan receivables and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments including ECL rates when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on ECL risk. At the end of reporting period, the Group has a certain concentration of credit risk as 30% (2021: 23%) and 52% (2021: 55%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

ECL rates are based on actual loss experience. These rates are adjusted to reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. No impairment for trade and other receivables is provided as the amount of additional impairment measured under the ECLs model is immaterial.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 25.

The credit risk on bank balances is limited because the counterparties are banks with high credit-rating or with good reputation.

## 40. Financial Risk Management *(Continued)*

### (b) *Liquidity risk*

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating based on rates current at the reporting date) and the earliest date the Group can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

| | **Carrying amount HK$** | **Total contractual undiscounted cash flow HK$** | **Within 1 year or on demand HK$** | **More than 1 year but less than 5 years HK$** |
|---|---|---|---|---|
| **31 December 2022** | | | | |
| Trade and other payables | **416,325,907** | **416,325,907** | **416,325,907** | **–** |
| Bank borrowings | **329,451,117** | **364,341,783** | **121,293,512** | **243,048,271** |
| Lease liabilities | **2,567,651** | **2,604,794** | **2,604,794** | **–** |
| Convertible loan payable | **157,715,217** | **166,718,333** | **2,889,583** | **163,828,750** |
| | **906,059,892** | **949,990,817** | **543,113,796** | **406,877,021** |

| | Carrying amount HK$ | Total contractual undiscounted cash flow HK$ | Within 1 year or on demand HK$ | More than 1 year but less than 5 years HK$ |
|---|---|---|---|---|
| 31 December 2021 | | | | |
| Trade and other payables | 468,762,578 | 468,762,578 | 468,762,578 | – |
| Bank borrowings | 416,782,995 | 434,527,948 | 160,637,402 | 273,890,546 |
| Lease liabilities | 5,329,487 | 5,482,389 | 2,661,348 | 2,821,041 |
| Convertible loan payable | 143,072,711 | 157,607,916 | 2,889,583 | 154,718,333 |
| | 1,033,947,771 | 1,066,380,831 | 634,950,911 | 431,429,920 |

## 40. Financial Risk Management *(Continued)*

### *(b) Liquidity risk (Continued)*

Maturity analysis based on scheduled repayments of bank loans which contain a repayment on demand clause

| | Carrying amount HK$ | Within 1 year HK$ | More than 1 year but less than 5 years HK$ | Total contractual undiscounted cash flow HK$ |
|---|---|---|---|---|
| **At 31 December 2022** | | | | |
| Bank borrowings | **135,705,467** | **90,304,133** | **52,571,244** | **142,875,377** |
| At 31 December 2021 | | | | |
| Bank borrowings | 223,037,345 | 86,741,621 | 147,153,930 | 233,895,551 |

### *(c) Interest rate risk*

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from pledged bank deposits and bank borrowings. Borrowings bearing variable and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate. The Group has not implemented any procedures to hedge its interest rate risk.

At 31 December 2022, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after income tax and retained earnings by approximately HK$1,295,000.

At 31 December 2021, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after income tax and retained earnings by approximately HK$1,837,000.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of each of the relevant periods and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis was performed on the same basis for 2021.

### *(d) Currency risk*

The Group's main operations are currently in the PRC with most of the transactions settled in RMB and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

## 41. Capital Risk Management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of debts, which includes the bank borrowings and convertible loan payable, cash and cash equivalents, pledged bank deposits, restricted cash and total equity. The Group's management regularly reviews the capital structure. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio of the Group at the end of reporting period was as follows:

| | **2022**<br>**HK$** | 2021<br>HK$ |
|---|---|---|
| Bank borrowings | **329,451,117** | 416,782,995 |
| Convertible loan payable | **157,715,217** | 143,072,711 |
| Less: Cash and cash equivalents | **(543,486,017)** | (671,335,685) |
| Less: Pledged bank deposits | **(14,275,000)** | (53,473,930) |
| Less: Restricted cash | **(52,941,562)** | – |
| Net cash and pledged bank deposits | **(123,536,245)** | (164,953,909) |
| Total equity | **1,731,366,805** | 1,734,277,293 |
| Net debt to equity ratio | **N/A** | N/A |

The Group monitors capital using a gearing ratio, which is net debts divided by total equity. Net debts are calculated as the sum of borrowings less the sum of cash and cash equivalents, pledged bank deposits and restricted cash as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level and the Directors are of the opinion that the Group's gearing ratio was maintained at reasonable level at the reporting dates.

## 42. Summary of Financial Assets and Financial Liabilities by Category

The following table shows the carrying amount and fair value of financial assets and liabilities:

| | 2022<br>HK$ | 2021<br>HK$ |
|---|---|---|
| **Financial assets** | | |
| FVTPL | **38,933,343** | 46,407,113 |
| FVTOCI | **23,218,349** | 50,160,757 |
| Loans and receivables at amortised cost (including bank balances and cash) | **1,084,437,913** | 1,399,077,644 |
| | **1,146,589,605** | 1,495,645,514 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | **906,059,892** | 1,033,947,771 |

## 43. Related Party Transactions

Members of key management during the year comprised the executive Directors only whose remuneration is set out in note 11.

## 44. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

| | Bank borrowings (Note 30) HK$ | Convertible loan payable (Note 31) HK$ |
|---|---|---|
| At 1 January 2022 | 416,782,995 | 143,072,711 |
| Changes from cash flows: | | |
| Repayments of bank borrowings | (81,597,430) | – |
| Interest paid | (12,781,480) | (2,889,583) |
| Total changes from financing cash flows | (94,378,910) | (2,889,583) |
| Other changes: | | |
| Interest expenses | 12,781,480 | 17,532,089 |
| Exchange adjustment | (5,734,448) | – |
| At 31 December 2022 | 329,451,117 | 157,715,217 |

## 44. Reconciliation of Liabilities Arising from Financing Activities *(Continued)*

| | Bank borrowings (Note 30) HK$ | Convertible loan payable (Note 31) HK$ |
|---|---|---|
| At 1 January 2021 | 414,824,021 | 140,529,056 |
| Changes from cash flows: | | |
| Proceeds from bank borrowings | 55,449,698 | – |
| Repayments of bank borrowings | (55,125,000) | – |
| Interest paid | (9,416,397) | (2,889,583) |
| Total changes from financing cash flows | (9,091,699) | (2,889,583) |
| Other changes: | | |
| Interest expenses | 9,416,397 | 5,433,238 |
| Exchange adjustment | 1,634,276 | – |
| At 31 December 2021 | 416,782,995 | 143,072,711 |

## 45. Event After the Reporting Period

On 22 February 2023, the Group entered into an amendment agreement with Henlius to amend certain terms of the co-development and exclusive license agreement dated 15 October 2020, which include payments for regulatory and commercial sales milestones and development costs in respect of the Licensed Product. Please refer to the announcement of the Company dated 22 February 2023 for details.

## 46. Approval of Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of Directors on 8 March 2023.

* For identification purpose only

# FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 to 2 below:

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2022 HK$** | 2021 HK$ | 2020 HK$ | 2019 HK$ | 2018 HK$ |
| TURNOVER | **1,317,710,616** | 1,637,659,431 | 978,111,126 | 1,279,478,212 | 1,176,457,931 |
| Cost of sales | **(128,381,601)** | (241,892,649) | (184,284,018) | (246,124,414) | (202,916,031) |
| Gross profit | **1,189,329,015** | 1,395,766,782 | 793,827,108 | 1,033,353,798 | 973,541,900 |
| Other revenue, and other gains and losses | **(3,131,001)** | (2,374,656) | 46,691,190 | 39,918,887 | 25,542,828 |
| Distribution and selling expenses | **(758,212,624)** | (835,953,964) | (476,629,742) | (632,819,688) | (649,719,067) |
| Administrative expenses | **(155,976,579)** | (153,756,279) | (111,612,214) | (81,724,458) | (68,908,719) |
| Finance costs | **(11,472,207)** | (9,224,505) | (1,421,405) | (6,963,537) | (7,403,254) |
| Share of loss of an associate | **(193,824)** | – | – | – | – |
| PROFIT BEFORE INCOME TAX | **260,342,780** | 394,457,378 | 250,854,937 | 351,765,002 | 273,053,688 |
| Income tax | **(34,931,470)** | (48,489,295) | (31,929,382) | (49,262,582) | (41,962,014) |
| PROFIT FOR THE YEAR | **225,411,310** | 345,968,083 | 218,925,555 | 302,502,420 | 231,091,674 |
| Other comprehensive income for the year | **(159,092,832)** | 20,537,243 | 42,698,071 | 7,785,423 | (73,209,087) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **66,318,478** | 366,505,326 | 261,623,626 | 310,287,843 | 157,882,587 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY | **66,318,478** | 366,505,326 | 261,623,626 | 310,287,843 | 157,882,587 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2022 HK$** | 2021 HK$ | 2020 HK$ | 2019 HK$ | 2018 HK$ |
| Non-current assets | **1,498,418,728** | 1,316,047,654 | 1,088,484,558 | 810,452,799 | 587,090,785 |
| Current assets | **1,213,978,405** | 1,547,391,375 | 1,332,854,872 | 1,267,490,516 | 862,598,152 |
| Current liabilities | **(560,916,768)** | (689,585,384) | (606,025,348) | (509,090,365) | (315,286,274) |
| Net current assets | **653,061,637** | 857,805,991 | 726,829,524 | 758,400,151 | 547,311,878 |
| Non-current liabilities | **(420,113,560)** | (439,576,352) | (389,123,248) | (371,707,915) | (205,500,767) |
| Net assets | **1,731,366,805** | 1,734,277,293 | 1,426,190,834 | 1,197,145,035 | 928,901,896 |

*Notes:*

1. The consolidated results of the Group for the years ended 31 December 2020, 2019 and 2018 are extracted from the published audited financial statements for these years. The consolidated results of the Group for the years ended 31 December 2022 and 2021 are as set out on page 57 of the audited financial statements.

2. The consolidated assets and liabilities of the Group as at 31 December 2020, 2019 and 2018 are extracted from the published audited financial statements for the years ended 31 December 2020, 2019 and 2018. The consolidated assets and liabilities of the Group as at 31 December 2022 and 2021 are as set out on page 58 of the audited financial statements.

# CORPORATE GOVERNANCE REPORT

The principal objective of Essex Bio-Technology Limited (the "Company", together with its subsidiaries, the "Group") is to enhance long-term total return for all its stakeholders. To achieve this objective, the Group focuses on achieving recurring and sustainable earnings, cash flows and dividend growth without compromising the Group's financial strength and stability. At the same time, good environmental conditions, social influence and governance structure are crucial to the development of the Group. As such, while seeking to pursue growth in its performances, the Group has also been constantly striving for excellence in areas such as environmental protection, social responsibility and corporate governance.

The board (the "Board") of directors of the Company (the "Directors") plays a leading role in defining the purpose, values and strategic direction of the Group and in fostering a culture that is forward looking, change embracing and competitiveness focused. The desired culture is developed and reflected consistently in the operating practices of the Group, workplace policies and practices as well as relations with stakeholders. Taking into account the corporate culture in a range of contexts, the Board considers that the culture and the purpose, value and strategies of the Group are aligned.

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving good corporate governance practices by emphasising its accountability, transparency, independence, responsibility and fairness. The Company is dedicated to exercise corporate governance through regular reviews of its adopted practices with reference to the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board also supports the Company's commitment in fulfilling the environmental, social and governance ("ESG") responsibility by formulating the Company's ESG management policies and strategies, identifying, prioritising and managing important ESG-related issues in combination with stakeholder communication and materiality assessment results, as well as setting ESG performance objectives and reviewing the completion progress regularly.

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the financial year ended 31 December 2022.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of the Directors, all the Directors have confirmed that they have fully complied with the required standards and provisions as set out in the Model Code throughout the financial year ended 31 December 2022.

## BOARD OF DIRECTORS

The Board, which currently comprises seven Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Board and the other Directors are set out in the section headed "Profiles of Directors and Senior Management" of this report. Save for Ngiam Mia Je Patrick and Ngiam Hian Leng Malcolm are in a father-son relationship, there is no other relationship (including financial, business, family or other material/relevant relationship(s)) between the Directors. All the Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently.

To improve the transparency and independency of the corporate governance of the Company, the chairman and the managing Director (who is responsible for the day-to-day management of the Company's business) of the Company are segregated and are not exercised by the same individual since August 2005. Ngiam Mia Je Patrick is the chairman of the Board and an executive Director, and Fang Haizhou is the managing Director and an executive Director.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders of the Company. Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi are the independent non-executive Directors. Each of their term of appointment is two years commencing from 30 September 2022, determinable by either party serving not less than one month's written notice on the other.

All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The Company has arranged for appropriate insurance cover in respect of legal actions against the Directors.

The Board held a full board meeting for each quarter.

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances. The Board is delegated with the authority and responsibility for the management of the Group. In addition, the Board has also established various Board committees, including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the corporate governance committee (the "Corporate Governance Committee") and has delegated various responsibilities to them.

The Company has adopted the practice of holding regular Board meetings at least four times a year. Apart from regular board meetings, the Board will meet on other occasions when a board level decision on a particular matter is required. Each of the members of the Board has full access to relevant information at the meetings.

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

Four Board meetings and one annual general meeting were held during the year ended 31 December 2022. The attendance record for the Board meetings and general meeting is as follows:

| **Directors** | **Board meetings attendance** | **General meeting attendance** |
|---|---|---|
| *Executive Directors* | | |
| Ngiam Mia Je Patrick | 4/4 | 1/1 |
| Fang Haizhou | 4/4 | 1/1 |
| Ngiam Hian Leng Malcolm | 4/4 | 1/1 |
| Yau Lai Man | 4/4 | 1/1 |
| | | |
| *Independent Non-executive Directors* | | |
| Fung Chi Ying | 4/4 | 1/1 |
| Mauffrey Benoit Jean Marie | 4/4 | 1/1 |
| Yeow Mee Mooi | 4/4 | 1/1 |

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by individual Directors in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2022 is recorded in the table below:

| **Directors** | **Reading regulatory updates** | **Attending external seminars/ programmes** |
|---|---|---|
| *Executive Directors* | | |
| Ngiam Mia Je Patrick | ✓ | ✓ |
| Fang Haizhou | ✓ | ✓ |
| Ngiam Hian Leng Malcolm | ✓ | ✓ |
| Yau Lai Man | ✓ | ✓ |
| | | |
| *Independent Non-executive Directors* | | |
| Fung Chi Ying | ✓ | ✓ |
| Mauffrey Benoit Jean Marie | ✓ | ✓ |
| Yeow Mee Mooi | ✓ | ✓ |

## REMUNERATION COMMITTEE

The Remuneration Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors. The majority of the members of the Remuneration Committee are independent non-executive Directors.

The existing terms of reference of the Remuneration Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company.

The role and function of the Remuneration Committee include the making of recommendations to the Board on the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (which include any compensation payable for loss or termination of their office or appointment), and the making of recommendations to the Board on the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The Company has adopted the model whereby the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors.

During the year under review, one meeting of the Remuneration Committee was held. Details of the attendance of the Remuneration Committee meetings are as follows:

| Members | Attendance |
|---|---|
| Yeow Mee Mooi *(Chairperson)* | 1/1 |
| Ngiam Mia Je Patrick | 1/1 |
| Fung Chi Ying | 1/1 |
| Mauffrey Benoit Jean Marie | 1/1 |

The Remuneration Committee has considered and reviewed the terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors and has assessed the performance of the Directors. The Remuneration Committee considers that the terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

## NOMINATION COMMITTEE

The Nomination Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

The existing terms of reference of the Nomination Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The role and function of the Nomination Committee include recommending the appointment and removal of Directors. The Nomination Committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship. The Nomination Committee also reviews the structure, size and composition of the Board and assesses the independence of the independent non-executive Directors.

In addition, the Board adopted a board diversity policy on 7 March 2014 (the "Diversity Policy"). Under the Diversity Policy, the Company recognises the benefits of board diversity and supports the principle that diversity can strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. For the year ended 31 December 2022, the Board has reviewed the implementation of the Diversity Policy, and is of the view that the policy remains appropriate and effective.

The Company believes that a diverse board will include and make good use of the difference in skills, experience and background, technical and industry experience, ethnicity, gender, age, nationality, knowledge and length of service and other qualities of the members of the Board. These factors will be considered in determining the optimum composition of the Board and all Board appointments will be based on merit, having due regard to the overall effective function of the Board as a whole.

Gender diversity of the Board stands at a relatively high level (29%, two females out of seven Directors) amongst companies listed on the Stock Exchange, and we aim to maintain the gender diversity of the Board going forward. The Board places tremendous emphasis on diversity (including gender diversity) across all levels of the Group (including senior management). Among senior management of the Company, 22% are females (two out of nine senior management members). The total gender diversity of the Group is balanced, with a slightly higher female employee base driven by the sales and marketing division. The Company will proactively provide trainings to Directors and senior management and will take into account the factor of gender diversity when recruiting suitable candidates for mid to senior management of the Company in the future, so as to develop a pipeline of potential successors for the Board and continue to enhance gender diversity in the Board in the coming years. To support diversity across all facets, beyond gender, including ethnicity, race, nationality, religion, age, political affiliation and marital status, the Group is enhancing diversity and inclusion efforts through employee networks, mentoring programmes, equitable hiring practices, policies and awareness raising events and training for all employees to support inclusive behaviours. Further details on the gender ratio of the Group and initiatives taken to improve gender diversity across senior management and the workforce can be found in the 2022 Environmental, Social and Governance Report of the Company, which will be published at the same time as the publication of this report.

The Nomination Committee reviews and assesses the composition of the Board and, where appropriate, makes recommendations on any proposed changes to the Board to complement the Company's corporate strategy. With respect to the nomination of new Directors, the Nomination Committee (a) takes appropriate measures to identify and evaluate a candidate based on the criteria set out above; (b) may consider a candidate recommended or offered for nomination by the Board or shareholders of the Company; and (c) makes recommendation and submits the candidate's personal profile to the Board for consideration.

The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experiences appropriate to the requirements of its business. The Board will continue to review its composition from time to time taking into consideration specific needs for the Group's business.

During the year under review, one meeting of the Nomination Committee was held. Details of the attendance of the Nomination Committee meetings are as follows:

| **Members** | **Attendance** |
|---|---|
| Yeow Mee Mooi *(Chairperson)* | 1/1 |
| Ngiam Mia Je Patrick | 1/1 |
| Fung Chi Ying | 1/1 |
| Mauffrey Benoit Jean Marie | 1/1 |

During the meeting, the Nomination Committee considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in compliance with the Company's articles of association, Ngiam Hian Leng Malcolm, Yau Lai Man and Mauffrey Benoit Jean Marie will retire by rotation at the forthcoming annual general meeting of the Company. Ngiam Hian Leng Malcolm and Yau Lai Man, being eligible, will offer themselves for re-election. Mauffrey Benoit Jean Marie will retire and will not offer himself for re-election as part of the Board's renewal process.

## AUDIT COMMITTEE

The Company established the Audit Committee in June 2001. The Audit Committee comprises three members, namely Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi, all being independent non-executive Directors. The chairperson of the Audit Committee is Fung Chi Ying. The existing terms of reference of the Audit Committee have been adopted on 14 January 2019 in compliance with the amendments to the Listing Rules. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The main responsibilities of the Audit Committee are to review and supervise the financial statements and the auditors' reports and monitor the integrity of the financial statements of the Group. Other responsibilities include the appointment of auditor, approval of the auditor's remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also responsible for overseeing the financial reporting system, internal control and risk management systems and their effectiveness.

The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal control, risk management and financial reporting. External auditor and the Directors are invited to attend the committee meetings as and when necessary. The Audit Committee also serves as a channel of communication between the Board and the external auditor.

The Audit Committee held two meetings during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

| **Members** | **Attendance** |
|---|---|
| Fung Chi Ying *(Chairperson)* | 2/2 |
| Mauffrey Benoit Jean Marie | 2/2 |
| Yeow Mee Mooi | 2/2 |

The work performed by the Audit Committee during the year under review and up to the date of this report included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2022, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2022 and the effectiveness of the internal control and risk management practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly. The Group's unaudited interim results for the six months ended 30 June 2022 and the audited annual results for the year ended 31 December 2022 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been duly made.

## CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was established on 23 March 2012. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Yau Lai Man, an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

The existing terms of reference of the Corporate Governance Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. The role and function of the Corporate Governance Committee include developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, reviewing and monitoring the code of conduct and compliance manual applicable to the Directors and employees, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Company's corporate governance report.

The Corporate Governance Committee held one meeting during the year under review. Details of the attendance of the Corporate Governance Committee meeting are as follows:

| **Members** | **Attendance** |
|---|---|
| Yeow Mee Mooi *(Chairperson)* | 1/1 |
| Yau Lai Man | 1/1 |
| Fung Chi Ying | 1/1 |
| Mauffrey Benoit Jean Marie | 1/1 |

During the year under review, the work performed by the Corporate Governance Committee included reviewing and monitoring appropriate training and continuous professional development of the Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Company's corporate governance report.

## EMOLUMENTS OF SENIOR MANAGEMENT

During the year under review, the range of emoluments paid to members of the senior management (other than the Directors) of the Group is set out in note 12 to the financial statements.

## DIVIDEND POLICY

Provided that the Group is profitable and without affecting the normal operations of the Group, the Company may consider to declare and pay dividends to the shareholders of the Company.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account various factors, which include, but are not limited to, the operating results and performance, cash flow, financial position, capital requirements and future prospects of the Group, as well as the interests of the shareholders of the Company.

Declaration and payment of dividend by the Company are also subject to the laws of the Cayman Islands, the memorandum and articles of association of the Company and any applicable laws, rules and regulations.

For the avoidance of doubt, there can be no assurance that a dividend will be proposed or declared in any specific period.

## COMPANY SECRETARY

Yau Lai Man, the company secretary of the Company, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the year ended 31 December 2022.

## AUDITOR'S REMUNERATION

During the year under review, the auditor's remuneration paid and payable by the Group to the external auditor in relation to the audit and non-audit services amounted to HK$1,266,800 and HK$144,400 respectively.

## SHAREHOLDERS' RIGHTS

### *Procedures for shareholders to convene an extraordinary general meeting*

Pursuant to the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### *Procedures for shareholders to put forward proposals at a general meeting*

Shareholders may suggest proposals relating to the Company to be discussed at a general meeting by sending written requisition to the Board or the company secretary of the Company and following the procedures set out in the paragraph headed "Procedures for shareholders to convene an extraordinary general meeting" above to convene an extraordinary general meeting for any business specified in such written requisition.

### *Procedures for shareholders to propose a person for election as a director*

Subject to applicable laws and regulations, including the Companies Act, Cap. 22 (as revised and amended) of the Cayman Islands and the Listing Rules, and the memorandum and articles of association of the Company as amended from time to time, the Company may by ordinary resolution in general meeting elect any person to be a director of the Company either to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. A shareholder of the Company may propose a person for election as a director of the Company by lodging a written notice to that effect at the head office and principal place of business of the Company in Hong Kong for the attention of the Company Secretary of the Company or at the branch register of members of the Company.

In order for the Company to inform shareholders of the Company of that proposal, the written notice must state the full name of the person proposed for election as a director of the Company, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The minimum length of the period during which such a written notice is given shall be at least seven days and the period for lodgment of such a written notice shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

### *Procedures for directing shareholders' enquiries to the Board*

Shareholders may direct their queries to the Board and may at any time make a request for the Company's information to the extent such information is publicly available through the company secretary of the Company whose contact details are as follows:

Address: Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
Fax: (852) 2587 7363
Email: essex@essexbio.com

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge that they are responsible for the preparation of financial statements for each financial period which gives a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2022, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The external auditor of the Group has also stated its reporting responsibility in the auditor's report on the consolidated financial statements for the year ended 31 December 2022.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that a sound system of internal control and risk management practices are essential in ensuring good corporate governance and pursuing the achievement of the strategic goals of the Group. The Board also acknowledges that it is the Board's responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the assets of the Group at all times. The Board reviews and monitors the effectiveness of the internal control and risk management systems on a yearly basis to ensure that the systems in place are adequate, and it has conducted a review of the risk management and internal control systems during the year under review.

The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

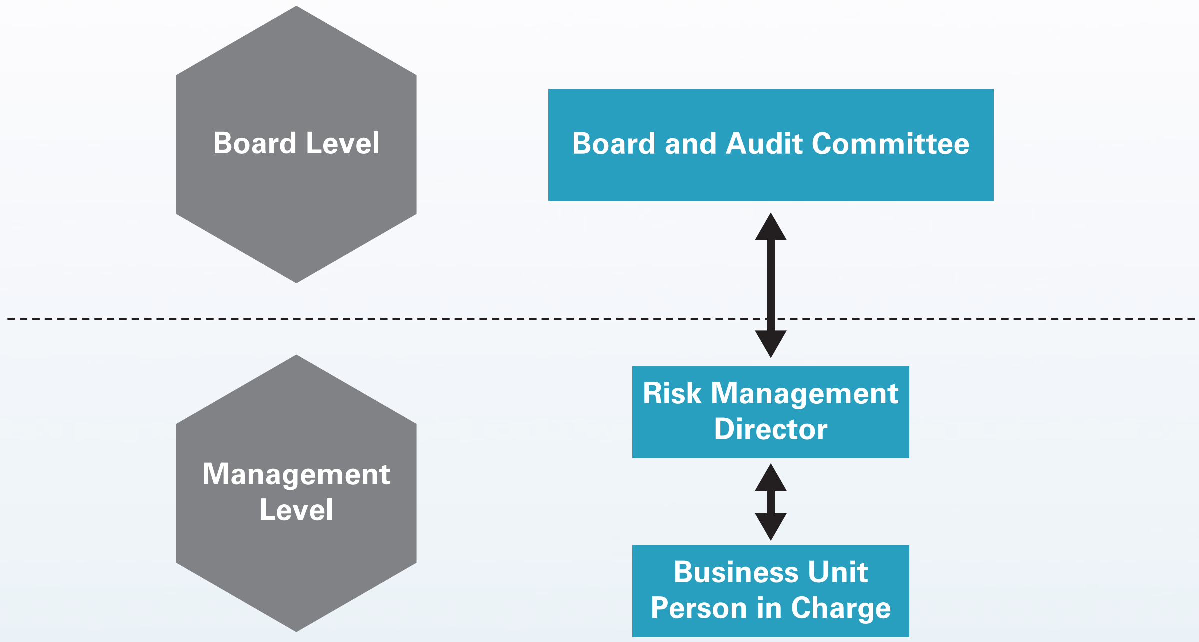
The Board is also involved in the materiality assessment and prioritisation of ESG-related issues that may have significant influence on the Company's long-term sustainability. Key ESG risks have been incorporated into the Company's risk management system and the Company has formulated risk response measures by considering the possibility, impact and trends of key ESG risks. The Board has regularly reviewed these key risks and has made recommendations to the measures taken.

The Company has established and given effect to its anti-corruption policy and whistleblowing policy and procedures, of which further details can be found in the 2022 Environmental, Social and Governance Report of the Company, which will be published at the same time as the publication of this report.

### *Risk Management and Internal Control Framework*

*Risk management*

In order to continuously improve the risk management and internal control systems, as well as to enhance the level of management and risk prevention capabilities, the Company has developed a risk management manual (the "Risk Management Manual"), established risk management strategy and structure, as well as defined the measures for risk assessment and risk management reporting procedures since 2016. The organisational structure for risk management is set out as follows:




**The Board and Audit Committee** oversee the structure and performance of the risk management functions and assess the effectiveness of the underlying risk management system.

**Management of business units** work together with the risk management director to perform risk assessment at operational level, and is responsible for monitoring and managing the risks identified in activities and operations. The risk management director is responsible for coordinating and conducting risk assessments in accordance with the Risk Management Manual and reporting risk management status to the Audit Committee annually.

The four key steps in the risk management process are:

- **Risk identification and assessment** – identify the key risks of the Group and analyse the risk by considering the possibility of occurrence and their implication;
- **Risk handling** – adopt appropriate risk management strategy and risk response plans;
- **Risk monitoring** – create mechanisms for monitoring to ensure the risk response plans are executed smoothly;
- **Risk reporting** – summarise the result of risk assessment and report to the Audit Committee.

In the risk management process, the top risks within the Group are identified and assessed; and the respective risk management measures as well as the corresponding mitigating controls are discussed, agreed and implemented by the management. Risk assessment results are reported by the risk management director to the Audit Committee and the Board annually.

*Internal control*

The internal control framework of the Group has been established based on the framework developed by Committee of Sponsoring Organisations of the Treadway Commission for internal controls. To assist the Audit Committee in its overseeing and monitoring activities, the Group maintains an independent internal audit function. The role of internal audit is to provide independent assurance that the risk management, governance and internal control processes of the Group are operating effectively. The internal auditors assess the operating effectiveness of the risk management and internal control systems during their course of audits. They carried out internal audits on all functions and the frequency is determined by the level of assessed risks in each function. Internal auditors shall provide independent and objective reports on operational and management activities of each function. The annual audit plans are reviewed and approved by the Audit Committee and audit findings are submitted to the Audit Committee for review.

The Audit Committee reviews internal control issues identified by the internal auditors, including the remedial actions taken to address and resolve the identified issues, and evaluates the adequacy and effectiveness of their risk management and internal control systems. The Audit Committee also reviews the internal control functions with particular emphasis on the scope and frequency of audits and the adequacy of resources.

To further strengthen the internal control systems, heads of all departments are required to confirm the effectiveness of the internal controls of their respective departments, including the identification of key issues in the control system and the developing of the action plan to remediate the weaknesses of the internal controls. Management is required to submit a confirmation to the Audit Committee and the Board annually to confirm the effectiveness of the risk management and internal control systems of the Group.

*Review the effectiveness of the risk management and internal control systems*

The risk management director reported to the Audit Committee for the annual risk assessment, internal control review and tests. Key risks are identified and their responsive mitigating controls are documented in the risk registers and reported to the Board by the Audit Committee.

For the year ended 31 December 2022, the Board has conducted the review of risk management and internal control system functions of the Group and considered them to be effective and adequate. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. No significant areas of concern that may affect the Company to achieve strategic goals have been identified.

During the review of risk management and internal control systems of the Group, the Board has assessed the adequacy of resources, staff qualifications, experience, training programmes and budget of the Group's accounting and financial reporting function and considered that these resources are properly allocated.

*Disclosure of inside information*

The Company has established policies and internal controls for the handling and dissemination of inside information to ensure that disclosures are made and/or announcements are published on a timely basis in accordance with the applicable laws and regulations. The Company has implemented procedures for responding to external enquiries about the Group's affairs and has in place a strict prohibition on unauthorised use of inside information.

## CONSTITUTIONAL DOCUMENTS

During the year under review, the Company had not amended its constitutional documents.

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has established the following communication channels with its shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders of the Company; (ii) the opportunity for shareholders of the Company to raise comments and exchange views with the Board during each annual general meeting; (iii) providing the latest and key information of the Group through the website of the Company; and (iv) the Company's share registrar serves the shareholders of the Company in respect of all share registration matters. For the year ended 31 December 2022, the Board has reviewed the existing shareholders' communication policy and is of the view that the policy remains appropriate and effective.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### *Executive Directors*

Ngiam Mia Je Patrick *(Chairman)*
Fang Haizhou *(Managing Director)*
Ngiam Hian Leng Malcolm
*(Deputy Managing Director)*
Yau Lai Man

### *Independent Non-executive Directors*

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

## AUDIT COMMITTEE

Fung Chi Ying *(Chairperson)*
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

## REMUNERATION COMMITTEE

Yeow Mee Mooi *(Chairperson)*
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

## NOMINATION COMMITTEE

Yeow Mee Mooi *(Chairperson)*
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

## CORPORATE GOVERNANCE COMMITTEE

Yeow Mee Mooi *(Chairperson)*
Yau Lai Man
Fung Chi Ying
Mauffrey Benoit Jean Marie

## COMPANY SECRETARY

Yau Lai Man MBA, ACA, CPA (practising)

## AUTHORISED REPRESENTATIVES

Fang Haizhou
Yau Lai Man

## AUDITOR

BDO Limited
*(Registered Public Interest Entity Auditors)*

## WEBSITE ADDRESS

www.essexbio.com

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2818
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

## HEADQUARTER IN ZHUHAI

No. 88
Keji 6th Road
Hi-Tech Zone
Zhuhai
Guangdong, China

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

## HONG KONG SHARE REGISTRAR

Hong Kong Registrars Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China
Bank of Communications Co., Ltd.
China Merchants Bank
China Construction Bank
Industrial and Commercial Bank of China (Asia) Limited

## STOCK CODE

01061